The Management Review

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JANUARY, 1953

Among the Features

AMERICAN MANAGEMENT ASSOCIATION

M. J. DOOHER, *Editor;* VIVIENNE MARQUIS, *Associate Editor*

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JANUARY, 1953

The Management Review

A Partial List of Contents

General Management

WHAT 1953 WILL MEAN FOR BUSINESS

PROPERLY understood, the sweeping political decision of last November 4 signifies much more than a change of management and a desire to see new faces in Washington. It means that the American people have adopted a new orientation toward the future.

We have had other evidence of this fact. Recently, millions of young American men and women have been deciding that raising families of two, three, four or even more children is a fine idea. As a mass vote of confidence in the future, this surpasses anything else that has happened in modern times. Its resultant upping of the rate of population growth in the United States effectively confutes the old theory of the "mature economy."

The total population of the United States is currently increasing at the rate of one new person, net, every 13 seconds. That means that potential new customers are being added to the market for goods and services in the United States at a rate of more than 2,400,000 annually. If we were living in a region of definitely limited resources and productivity this might mean disaster, or at least a steady lowering of living standards. Actually, Americans are not only consuming goods and services at a higher rate than ever before but are supporting at the same time a high level of capital investment and military expenditures at a record rate for what is technically called peacetime. Far from being a tax upon our economy, our growing population is a stimulant.

The American economy is currently operating very close to capacity. To speed up industrial activity in 1953 by any measurable degree, a fresh impetus of compelling power would be required—and none is in sight. The new national administration will probably require some time to develop top-management policies and programs for dealing with pressing major problems of political and economic policy; some measure of order and control in these areas must be established before a new expansion movement is likely to take place in our domestic economy. In a very real and compelling sense, 1953 will be a transition year.

This is the composite opinion of 137 leading economists who participated in a recent opinion survey conducted by F. W. Dodge Corporation. The consensus indicates a very narrow range of trend changes in business and construction volume, prices and wages, and personal consumption expenditures. The possibility of very mild recessions in industrial activity during the second half of 1953 was also mentioned.

A small minority of economists who participated in the survey indicated an expectation of a rather considerable setback in the latter part of 1953. The most frequently cited reason for such fears was the anticipated tapering off of defense expenditures. However, since total expenditures for national security in

1952 amounted to less than 15 per cent of gross national product, reduction of these expenditures by a full third would of itself reduce the gross national product by less than 5 per cent. Moreover, such a reduction, if it can be effected, will probably come about rather gradually. To believe that American industry, which reconverted from all-out war production to peacetime conditions with minimum dislocation in 1946, cannot now adjust itself with ease to any foreseeable reduction of government spending seems unrealistic.

While some decline in new plant and equipment expenditures in 1953 seems likely, it need not be of significant size or duration. The recent wave of plant expansion, which has been largely aided by government, has consisted principally of increased facilities for heavy industry. Expansion programs in the consumer goods industries may be expected to follow rather closely.

The current adjustment of world prices in a number of basic raw materials is having its effect on our foreign trade. However, our own domestic price structure seems to be fairly well stabilized. While world price trends are to be watched as possible danger signals, they should not be too greatly feared at this stage. The aim of our own and other central banking systems will be to halt further inflation rather than to bring about serious deflation.

On the assumption that military hostilities do not greatly increase, there seems on the whole to be little evidence favoring a serious recession, and there is a fair chance that we shall have no recession at all.

—THOMAS S. HOLDEN and CLYDE SHUTE. *Architectural Record*, December, 1952.

SELLING YOUR IDEAS TO THE BOARD OF DIRECTORS

IF you are able to sell your idea to a few of the top executives of your company, selling the board is seldom difficult—provided the board is a hand-picked one, composed largely of the same company officers. It is the other type of board that gives an executive a bad time. Here is a group of men elected by the stockholders to employ and supervise the management. They may be men from all walks of life—bankers, brokers, or lawyers—or they may be militant holders of large enough blocks of stock to entitle them to representation on the board. In any case, their main interest can be summed up in one word: Dividends. They look upon any proposition that might affect the dividend rate with a fish eye.

Here are a few pointers that may help you sell a challenging idea to a show-me board of directors:

Have a good beginning. This means, among other things, that you should present your idea from the standpoint of the needs of the business, rather than generalizing about profits or claiming extravagant earnings. Every business has a problem that is giving the directors concern; by hitching your proposal or plan to that problem you can be sure of a good beginning.

Submit a packaged program wrapped up and ready to go. Don't make the mistake of presenting a bare idea instead of a fully thought-out program. Remember, directors think in different terms than

management; they are used to dealing with the larger aspects of the business. So, paint your picture with bold strokes, and keep the matter of dividends right up in the foreground.

Underscore the key points as you go along. Many excellent proposals to expand a business have been turned down because a few of the directors missed some of the points in the presentation. So, if you must read your presentation, use a flip chart or an easel scratch pad to set down each important point as you go along. Drive each point home and clinch it.

Plug the "iffy" spots with facts. Put yourself in the shoes of a hard-boiled director who is allergic to new ideas of any kind, and list all the reasons against your idea, as well as the reasons for it. Then, as you develop your presentation, skillfully dispose of each objection, if possible without actually stating it. Also, know what your plan requires to put it into operation—the manpower and capital investment needed, the operating cost, and, of course, a reasonable estimate not only of added profits but of what the company will gain in terms of more efficient operations or strengthened competitive position.

Cite the experiences of other companies. There is always a temptation to present an idea as original and never before used by any business, so far as you know. Such an approach won't impress the board of directors very much. They want assurance that the idea will pay off. They want to know which other companies have used a similar idea and what happened.

Respect the chain of command. Young executives especially are often inclined to bypass their immediate superiors and write directly to the chairman of the board of directors to get a hearing. Sometimes they get heard that way, but if they do, they can count upon the enmity of all those who were bypassed. It is a wise executive who enlists the cooperation of as many officials as possible, so that he will have their support when needed.

Make it easy to test the plan. One of the best ways to get the support of management for an idea which requires board approval is to show how the gamble can be reduced by a simple and inexpensive test. While every business man must gamble on new ideas, he wants to hold the gamble down as much as possible. Making it easy to test the plan before any large commitment is required is one way to get management on your side. Any plan for testing should also include a method of checking the results.

Put it in writing. Some directors like to follow a brief; it helps them to understand points which the speaker may not have made too clear. Others prefer just to listen, so that they can concentrate upon what the speaker is saying. And there are always a few who will sit and play with papers instead of paying attention to the presentation. Perhaps the best strategy is to pass out copies of your proposal to each member of the board after you have finished the presentation and before the discussion has started. Usually, however, the practice of the committee or the board determines this point for you.

—CAMERON MCPHERSON. *American Business*, November, 1952, p. 19:30.

THE ONLY DIFFERENCE between theory and practice is that in practice you can't leave anything out.

—CHARLES KETTERING

1955: Possible Turning-Point?

THE PROSPECT of continued high defense expenditures, together with the current satisfactory inventory position of business, makes it probable though not certain that 1953 will be another good year for business, the Commerce Department says in its long-awaited survey, *Markets After the Defense Expansion.* Among its other predictions:

Sizable general price rises are unlikely during the coming year, but moderate price advances in areas that have previously lagged—rents, for example—may be expected.

Total government purchases, plus investment in non-farm plant and equipment, should be at least as high in 1953. This factor also provides an important element of strength in the outlook for 1954, when a downturn is considered possible.

The projected decline in defense spending in 1955 is likely to provide a serious test of strength for the economy. Major importance will be given to expansion of private markets to maintain a high level of business activity in 1955.

The report says the principal foreseeable forces that may offset falling security expenditures are (1) the stimulus to private spending provided by a lowering of federal tax rates concurrently with the drop in defense outlays and (2) a rise in civilian government purchases. A continued high rate of capital formation, it observes, could well result in a somewhat higher annual rate of over-all productivity gain in the next several years.

In the period ahead, there may be some rise in the spending-income ratio (spending rate in 1951-52 was 92 per cent of disposable income), and this would imply a small stimulus to sales. But a more important influence will be the amount of aggregate income available for spending, and this will be governed chiefly by the level of business activity and tax rates.

—*New York World-Telegram and Sun* 1/5/53

95 Weeks = 1 Year

WHILE smiling is permitted at any time of the year, it is well to keep in mind that March 9-15 has been set aside as National Smile Week. Laughing is another matter. That's reserved for April 1-8, which is National Laugh Week.

In all, there are now some 400 National Days, Weeks and Months of one kind or another, of which 130 are sponsored by business. Weeks lead all the rest: there were 95 of them in 1952, promoting almost everything from baseball to valentines, and from watches to wines. Business-sponsored events, which included 15 special Days and 20 special Months in addition to the Weeks, are usually conceived and promoted by individual trade associations or by committees representing several such organizations.

Last July, for example, we had an opportunity of observing not only National Picnic Month but also National Iced Tea Time, National Joseph Lee Day, and Junior National Inventors Week. In case anyone felt too old for Junior National Inventors Week, the same week was also set aside as National Inventors Week, presumably for adults. In July, apparently, inventing can be done at any age level.

Some of the other Weeks are especially intriguing. Among those observed last year, for example, were Odorless Decoration Week (Jan. 6-12), National Large Size Week (April 7-14), and National Leave Us Alone Week (April 1-8).

This last, the Department of Commerce deadpannedly reports, "was begun by a newspaper editor of Douglas, Ga., who appreciated the value of promotional events but feared the saturation point would someday be reached."

—*Public Relations Journal,* Vol. VIII, No. 7

PEOPLE ARE HERE TO STAY

DESPITE RECENT predictions that machines will soon supersede many workers, and even some minor executives, there are still hundreds of jobs for which no machine has been able successfully to compete with humans.

At the E. Ingraham Company, for example, long banks of machines chatter away at sheets of metal and turn out perfectly formed watch parts. At the end of the watch-making process, though, human fingers must put the parts together.

Tile makers have discovered that the best way to spot an imperfect tile is by the sound it makes when dropped on a metal block. In theory, at least, it should be possible to teach an electric ear to recognize the ring of a cracked tile. In practice, though, it isn't worth the trouble—and professional tile droppers have the field all to themselves.

As for judging smells, machines are even less successful. At a big milk-processing plant in Manitowoc, Wisc., for instance, each incoming batch of milk is tested with mechanical devices for bacteria, butterfat content, and several other items. But an educated human nose has to decide on its odor.

No machine ever devised can track down the frequent leaks that occur in the 50-gallon oak barrels in which whiskey is aged. The job is done by patrolmen who clamber over, around, and under the barrels day and night, their noses alert for the heady aroma of mellow bourbon or rye.

One of the simplest, most routine jobs imaginable—filling glass jars with olives—is an impossible task for any machine. It takes a gentle touch and flying fingers to fill the jars to their brims with olives packed tight, but not so tight they bruise; no gadget can get the knack of it.

Tying a knot—another manual operation so simple that we can do it automatically—is terribly difficult for a machine to perform. Every year, the Hallmark Greeting Card Co. turns out huge numbers of valentines, each adorned by a little red ribbon bow. A machine that could tie bows on cards would be a gold mine to its inventor. But since no one has been able to invent one, the company has to add dozens of employees to its pay-roll each year for this job alone.

—ROBERT FROHMAN. *This Week*, November 2, 1952.

What's Happened to Executive Salaries?

RECENT STUDIES have indicated, if not proved, that high executive pay helps create above-average profits. In most companies, however, executive salaries are related to the company's profit position only in that they are unlikely to be increased if profits are declining. Often, compensation may not be increased enough during an inflationary upsurge in sales and profits to provide adequate executive incentive.

A recent survey of executive compensation showed that directors had not kept management compensation in line with the uptrend in sales and profits during the past decade. Between 1939 and 1950, while industry's profits increased almost 300 per cent, the average gross compensation of the top group of policy-making managers increased only 35 per cent. Middle-management executive compensation, however, went up 45 per cent, that of supervisors and foremen rose 83 per cent,

and white-collar and hourly employees' compensation more than doubled. When tax and cost-of-living increases were adjusted for, top management's purchasing power had been cut 59 per cent in 11 years and middle management's 40 per cent. Only white-collar and hourly employees maintained or improved their purchasing power.

—*Fortune* 1/53

What Keeps Us from Growing

BIG MEN become big by doing what they don't want to do when they don't want to do it.

This wise saying explains why we have so many great problems today, yet so few great men. It also explains why as individuals we are bothered too long by too many problems. We put off the unpleasant tasks, the difficult duties, and the hard decisions.

For example, we dislike calling on bereaved people. We put off getting a medical checkup. We postpone making a will. Our children often go undisciplined because of our avoidance of unpleasant responsibility. Too many of us refuse to think about income taxes until the last week.

It's our delay in doing what we don't want to do that keeps us from growing in character and peace of mind.

—WILLARD A. PLEUTHNER, quoted in *Management Digest* (The Prudential Insurance Company of America) 11/52

"According to our revised employee rating charts, our one square peg in a round hole is the chairman of the board."

—Reprinted from *Printers' Ink*

THE AMERICAN LIVING STANDARD: WHAT'S AHEAD IN '53

THE YEAR 1953 can mean an advance in the standard of living of the American people that would more than offset any probable slackening or cutback in defense expenditures. Cuts in government expenditures could, of course, start a downward cycle, largely psychological in its origins. However, the opportunity exists for just the opposite—an expansion in our standard of living. There is evidence that both our productive ability and our ability to consume can result in an expanding prosperity for some years to come—without our having to sacrifice a strong defense program.

Here are some of the facts to be considered:

1. A 10 per cent increase in consumer purchases of goods and services would more than offset even a $20 billion cut in defense expenditures.

2. Between the 1944 war peak and 1947 we survived a cut in defense expenditures the equal of $125 billion in present prices—six times as great as that we now face.

3. We should, and could, have right now a standard of living one-third higher than it is, on the basis of the productive ability we demonstrated in 1944. Actually, our tools of production and our know-how have advanced far enough beyond 1944 to make possible a real productivity per capita beyond that needed to support even a consumption one-third greater than at present.

4. The one-third higher standard of living which now is possible would so broaden the base for taxes that there could be a 25 per cent cut in tax rates without lowering the present high level of revenue for government and defense.

In other words, our living standards are lagging behind our productive ability. After we pass the peak of defense needs in 1953 we will have an opportunity to catch up. In preparation for the period of transition, marketing and production plans should be re-examined now. Advertising and selling pressure must be expanded, since 10 per cent greater sales to consumers will be needed when defense slackens off in 1953.

Purchasing power in 1953 can reach the highest level in history. Present production trends point to a 1953 level of $255 billion of disposable personal income after taxes—enough to increase consumption expenditures by 10 per cent over 1952 and still allow a continued high level of over $20 billion in personal savings. In 1953 the American people could have 78 per cent more real purchasing power with which to buy physical units of goods and services than they had in the best prewar year, 1940; and consumer debt, including farm mortgage, home mortgage, and short term credit, could increase by 40 per cent before reaching the 1940 relationship to savings. All of these facts point to high purchasing power in 1953; and high purchasing power means opportunities for increased distribution of goods and services to consumers.

The economic conditions facing us now present both a major opportunity and a challenge to business. The task is to educate the American people to accept and work for the higher standard of living their productive ability warrants.

The signs are plain that as defense needs slacken off in 1953 or 1954 we will have the basis for an unequaled peace-

time prosperity, based on the increasing standard of living that our proven productive ability can support. But the demand must be created for the goods and services we can produce, and government must recognize that the opportunity for a higher standard of living is dependent not on government spending but on a climate favorable to initiative and private enterprise.

—ARNO JOHNSON. *New York World-Telegram and Sun*, January 5, 1953, p. 29:2.

How to Increase Executive Capacity

FOR YEARS the theory has been that an executive could not effectively supervise more than six or seven subordinates. There have even been learned formulas to prove this scientifically.

But Sears Roebuck, I understand, has thrown conventional notions of the span of control to the wolves. A manager may have not six but 50 department heads under him. The subordinates are picked men. The boss outlines policies, a task, a quota, or a budget, and they agree as to what it will take and whether it can be done.

From that point on, the department head is on his own. If he is in trouble, he goes to the boss. The boss is freed at one stroke from a multitude of unnecessary detail. He follows reports to see how each department is conforming to plan; if a subordinate fails to take the initiative in reporting trouble, the reports tell the story.

Contacts are on an informal and personal basis. It is the boss's business to know his men. Beyond these duties, he is free to think about tomorrow's problems, to mix with customers, to study competition and general business developments—in short, to lead.

—H. P. DUTTON in *The Journal* (Systems and Procedures Association of America, Saudi Arabia Chapter) Vol. I, No. 1

New Businesses in 1953

IF YOU start your own business in 1953, you will be one of about 450,000 persons who are setting out to be their own bosses. Business forecasters predict these figures on new ventures to begin during the year:

180,000 wholesale and retail stores.

75,000 service industries (barber shops, laundries, etc.).

70,000 contract construction firms.

55,000 manufacturing companies (half of them in lumber and timber basic products).

35,000 in transportation, communication and other public utilities (mostly trucking and warehousing).

30,000 in finance, insurance and real estate.

5,000 in mining and quarrying.

—*This Week* (*New York Herald Tribune*) 1/11/53

NO ONE CAN BE entirely fair with an object or subject he is opposed to or favors. Something must be taken off my conservatism, and added to another's radicalism; my truth is not entirely true, nor my opponent's error without some basis in fact.

—EDGAR WATSON HOWE

EXTENDING THE SCOPE OF INDUSTRIAL RESEARCH

THIS YEAR MANY companies will send their industrial research problems to colleges, trade associations, or government agencies. *The New York Times* has estimated, on the basis of a study made at the end of 1949, that industry spends $25 million annually for research in colleges and universities; and trade association research is on a much larger scale, amounting to a possible 20 to 30 per cent of the half-billion dollars spent yearly on all industrial research. To a lesser degree, various state farm stations, the National Bureau of Standards, the U. S. Department of Agriculture, and other federal bodies, serve private industry in the solution of research problems.

There are many reasons why private industry should look to these three sources for assistance. One, of course, is that the firm that cannot set up its own research laboratory can, for as little as a few hundred dollars, turn over its problem to the local university, where costly research equipment and skilled scientists are placed at its disposal. Almost anything concerned with industry is a legitimate subject for investigation by university laboratory staffs; in the trade association and government research fields, however, the general practice is to limit investigations to problems of broad, general interest.

Even more important, from the long-range viewpoint, is the fact that government, associations, and universities can devote themselves to basic research—the investigation of fundamental principles or laws underlying the science on which a particular industry is based. Basic research is costly, requires years of effort, and may produce little more than material for a short article in an obscure scientific journal; yet in many cases it has paid off in spectacular fashion. For example, it was basic research, carried out in large measure by the U. S. Bureau of Mines, that led to the development of titanium; and this Bureau is currently making similar fundamental studies on helium, zirconium, and synthetic liquid fuels.

Despite its importance, basic research seems far removed from the daily problems of most industrial concerns. The obvious and pressing need is for applied research, which concerns itself with such things as creation of new products, development of substitute and alternate materials, reduction of processing difficulties, utilization of by-products, elimination of production bottlenecks, and improvement of product design—in short, with activities that contribute directly to increased production, greater sales, and higher profits. Though the major part of such research is conducted by universities and trade associations, many federal and state undertakings are truly in the category of applied research. Synthetic cork, for example, was developed by the Department of Agriculture, working cooperatively with a large number of private companies.

The following suggestions may prove useful to the individual concern in utilizing external sources for research, both basic and applied:

1. Know the nature and extent of cooperative research conducted by associations to which your company belongs.

2. Know the type of research being done by associations in other industries, and obtain reports and bulletins pertinent to company activities. A call to the nearest field office of the U. S. Department of Commerce will elicit information on

addresses and research activities of most organizations.

3. If your company is inactive in the research field, aid in the establishment of research committees. The National Research Council, Washington, D. C. will supply advice on launching association research.

4. Devise means for routing research bulletins through the company, and insure that pertinent research information is seen by all interested persons.

5. Make contact with local and state colleges to determine the nature of the research programs they offer.

6. Consider supporting colleges through scholarships and grants to their general funds.

7. Utilize federal research help through the trade association. Suggest that industry-wide problems be submitted to suitable government bureaus through the association.

8. Check with your state government to determine the extent of the research aid available.

—Benjamin Melnitsky. *Steel*, August 4, 1952, p. 96:30.

Glossary of Official Terms*

Referred to a higher authority—	Pigeonholed in a more sumptuous office.
Referred for appropriate action—	Maybe your office knows what to do with this.
Point up the issue—	Expand one page to fifteen pages.
Research work—	Hunting for the guy who moved the files.
To mastermind—	To avoid blame for not doing while getting credit for the doing of others.
Procedure—	Everyday routine rigmarole.
Ltr. of transmittal—	A way to pass the buck.
Further substantiating data is necessary—	We've lost your stuff. Send it again.
To explore the problem—	Don't get impatient. We'll think of something.

—*The Record* 6/50

* For an additional list of business terms, published earlier, see *Business Dictionary (Unrevised)*, The Management Review, June, 1951, p. 388.

Proof That Employee Opinion Counts

THOUGHTFUL public relations practitioners have long felt that good employee relations was a prime factor in good public relations. Comparatively recent surveys and studies have produced overwhelming statistical proof of this fact.

A great oil company in the Midwest had a survey made not long ago in the communities where its plants were located, in order to find out what people in the community thought of the company. Breaking down favorable and unfavorable opinions, the company came up with this interesting fact: Seventy-seven per cent of the people who held favorable opinions of the company had received their good impressions from talking with one or more satisfied employees. Conversely, 56 per

cent of those who held unfavorable opinions about the company had talked with one or more dissatisfied employees.

Even admitting that people in the plant community, in daily contact with employees, are likely to be more influenced by people than by the printed word—which may be more influential in other geographical locations—the study provides startling proof of the importance of satisfied employees to any public relations program. On the basis of this and similar studies it seems plain that while good employee relations may be possible without good public relations, it is *not* possible to have good public relations without having good employee relations.

—*Public Relations Journal*, Vol. VIII, No. 7

Also Recommended . . .

MORE IMPORTS NEEDED. By Sumner H. Slichter. *The Atlantic Monthly* (8 Arlington Street, Boston 16, Mass.), January, 1953. The thesis of this article is that the United States can greatly help the other free nations by methods that will at the same time strengthen its own economy. Specifically, the author recommends a policy of balancing our total imports with our total exports—which would, among other things, insure continued foreign demand for American products after our economic aid to friendly nations is reduced.

AUTOMATIC CONTROL. *Scientific American* (2 West 45 Street, New York 36, N. Y.), September, 1952. This entire issue (except for six regular departments) is devoted to automatic control through self-regulating machines: its principles, current uses, future development and applications, and potential effects on society. From it the lay reader can acquire a good over-all grasp of both the technical and the social implications of industry's conversion to automatic processes.

THE EXECUTIVE AND HEALTH. *Transactions of Sixteenth Annual Meeting, Industrial Hygiene Foundation* (Mellon Institute, 4400 Fifth Avenue, Pittsburgh 13, Penna.), Bulletin No. 19, 1951, $1.50. In this panel session, presided over by Inland Steel's manager of industrial relations, three eminent physicians discuss means of improving and preserving the health of executives. In one example, the medical director of General Motors' Cadillac Division reports on the company's diagnostic health examination program for its 4,000 senior executives. Examinations revealed unsuspected physical conditions in 40 per cent, of whom two-thirds changed their living habits as a result of recommendations and more than one-fifth had surgical treatment for conditions they had not known existed.

SHOULD MANAGEMENT MOVE TO THE COUNTRY? *Fortune* (9 Rockefeller Plaza, New York 20, N. Y.), December, 1952. Because of insufficient office space, the risks of staying on in a target area, or the desire to provide an attractive environment for employees, several companies—a few large, the majority small—are moving their headquarters out of the city into the suburbs. While examining objectively the arguments for and against relocation, this article points out that under present circumstances it is unlikely to become a definite trend.

YARDSTICKS FOR TODAY'S MANAGERS. By Eugene Whitmore. *American Business* (4660 Ravenswood Avenue, Chicago 40, Ill.), September, 1952. Far too often, the author believes, management is content to be guided by records of an essentially historical nature, which are of little real help in forecasting future trends. More useful and dynamic tools of measurement, discussed in this article, are such yardsticks as percentage of orders shipped on time, number of unprofitable orders currently handled, number of "seconds" being produced, and trends in labor turnover.

BUSINESS AFTER THE DEFENSE BOOM. *Fortune* (9 Rockefeller Plaza, New York 20, N. Y.), December, 1952. Three alternative trends are projected in this article for "195X," the year defense spending declines and levels off. The lowest projection—most significant of the three, since it is based on minimum needs of consumers and business—sets production of consumer durables in 195X at $25 billion, or $13.5 billion below the current production rate.

WHAT LABOR WANTS THIS YEAR

Two major imponderables are certain to have an important effect on labor relations this year: the attitude of the new government toward organized labor and the rate and impact of defense spending. For the first three or four months of 1953, it can be expected that the labor leaders will adopt a policy of watchful waiting, in order to assess and study the behavior of the new Congress toward social legislation in general and the Taft-Hartley Act in particular. Just as the advent of a new administration in the past has resulted in quiet on the labor front for at least six months, so the first part of 1953 may be expected to be a period of sparring and caution on the part of organized labor.

As for defense spending, sometime between June and September the peak will probably have been reached in arms outlays. Although no slack-off in the $60-billion-a-year rate is expected until 1954 or early 1955, the interim plateau will be reflected in the give-and-take relationships at the bargaining tables. The prospect of fewer government orders will force management negotiators to take a more economical view of labor costs, especially since wage increases have already outstripped by some 14 per cent the savings resulting from technological developments. Labor economists, however, will argue that by increasing wages employers could unloose a new source of buying power at the same time Uncle Sam is buttoning up his pocketbook. In support of this theory, they will offer the post-World War II period as evidence. Actually, however, savings in 1953 will probably be much lower than they were at the end of World War II, and credit extension as a purchasing prop will have lost its force. To expect wage hikes to carry the prosperity ball without support from savings and credit is dubious economics.

Another reason why the first quarter of the year will be relatively quiet for labor relations is that the large contracts that will set the pattern for wages won't come up for renewal until the latter part of the year.

If the future of wages seems a little clouded in 1953, what's ahead in other collective bargaining areas is comparatively clear. For example, productivity raises will be a serious bargaining issue. Since General Motors and UAW signed their five-year pact containing a productivity clause, the matter of the "annual improvement factor," as it is sometimes called, has become a *cause célèbre* in industrial relations. Under the GM agreement, workers receive annual automatic raises of 4 cents per hour on the grounds that, since the national economy is getting more efficient, management can afford the increase without raising its labor costs. Since then, similar demands have been made on other employers, but in vain. One reason productivity raises have received short shrift from management bargainers is that they cannot be granted without WSB approval. By April, however, there may be no stabilization board to say "no," and then labor leaders will

be planning a big push for productivity hikes.

It's on the fringe front, however, that unions hope to make big gains during 1953. Here is a list of their most likely demands:

Pensions and Health and Welfare. The form of demands will usually vary according to what the company already has in effect; but maximum demands generally will not exceed these limits:

1. Retirement payments after 65 of $125 a month, including Social Security.
2. Group life insurance protection of $2,500, wholly paid for by the company.
3. Sickness and accident insurance benefits of $36 a week for 26 weeks.
4. Hospitalization insurance to cover the employee and his family and provide semi-private facilities, all at company expense.
5. Medical and surgical insurance that will provide up to $250 if an employee requires an operation.

Holidays. At bargaining tables, unions will concentrate on obtaining a relaxation of the eligibility requirement that makes holiday pay dependent on an employee's attendance at work on the day before and after the holiday. They will also push for the elimination of the condition that the holiday must be a regularly scheduled workday.

Union security. Since the steel strike settlement, this has become the No. 1 bargaining issue. The modified union shop won by the steel workers is already being eyed as a step forward by other unions.

Guaranteed annual wage. Up to now, the gains in this field have been restricted to a few industries and a few unions—notably, meat packing and the CIO Packinghouse Workers. But a few more labor organizations—such as the National Maritime Union—seem about to make similar demands.

Layoffs and promotions. Unions want employers to consider only length of service in determining the selection of employees for layoff and promotion. In some industries, where job skills are specialized, a "seniority only" clause could severely hamper production and reduce efficiency.

Automatic progression. Unions want to eliminate "merit raises" and make pay progression within a rate range dependent on length of service. Some employers are agreeing to this; but smart management negotiators are successfully making counter-demands—for example, that such automatic raises be put off three months for every disciplinary "warning notice" the worker receives.

—LAWRENCE STESSIN. *Mill & Factory,* December, 1952, p. 75:5.

Twenty-five Million More Workers by 1975

UNDER A prosperous peacetime economy, the U. S. labor force can be expected to expand to approximately 89 million by 1975, as compared with 64 million in 1950 and an estimated 41 million in 1920. The projected rate of growth—which represents an average annual increase of 1.3 per cent during the next 25 years—would be slightly less than that for the past three decades. Some acceleration, however, is expected during the 1960's, when the large crop of babies from World War II and the early postwar period attains working age.

The expected expansion in the labor force between 1950 and 1975 will largely reflect an increase in the number of people coming of working age, rather than changes in labor force participation. Actually, the over-all labor force participation rate for people 14 years old and over in 1975 will probably represent little change

from that recorded in 1950 (57 per cent). There will be some changes, however, within this group. Some decline is expected in male labor force participation, virtually all of it among youths who will be spending, on the average, more years in school—and among men 65 years old and over, a greater proportion of whom will be retired if present trends continue.

Also, as time passes, women will occupy an increasingly important role in the economic life of the nation. In 1920, they represented only 21 per cent of all workers; the proportion had advanced to 28 per cent in 1950, and is expected to reach 33 per cent by 1975. A particularly large increase is foreseen among women in the middle and older age groups.

—*Current Population Reports* (Bureau of the Census) 12/10/52

Outlay for Industrial Health Tripled Since 1940

THE AVERAGE COMPANY with some kind of industrial health and safety program is now spending at least three times as much on its employees as it did in 1940. This conclusion emerges from a study conducted by the National Association of Manufacturers as part of a Brookings Institution survey on health resources in the United States. In 1940, the NAM estimated the annual cost per worker of industrial health services as $8.81; in the current NAM study, a total of 1,576 companies, employing nearly one and one-half million workers, reported an average expenditure of $25.90 per employee.

All told, the NAM received replies to at least some of its queries from 3,589 member companies with 3.3 million workers—representing more than 22 per cent of those employed in manufacturing industries in 1950. Practically all the companies with 1,000 or more employees, over 75 per cent of those with between 500 and 1,000, and 40 per cent of the companies with fewer than 500 employees said they gave pre-employment checkups; these firms represented, in all, 2.9 million workers. Of the total number of firms reporting in the survey, 1,462, employing 2.5 million workers, maintain health education programs. More than 80 per cent of all companies employing more than 2,500 workers were in this category.

—*Business Week* 8/23/52

Alcohol and the Worker: A Survey

HOW BIG a problem is alcoholism in industry? A survey of 433 manufacturing companies, each employing more than 500 workers, showed that 84 per cent didn't even consider it important.

Here are some of the questions asked the companies—and their replies:

How do you define chronic alcoholism? More than half the companies called it "inability to leave alcohol alone; compulsive or uncontrollable drinking."

How many chronic alcoholics do you have? The average figure was less than ½ of 1 per cent. This was true even for those who believed that fellow employees try to cover up for the alcoholics.

Is social drinking a problem? No, said 90 per cent of the companies.

Does alcoholism cause much absenteeism? It ranked last as a cause of absenteeism, according to the replies.

How many days per year does each chronic alcoholic lose from work? On the average, said the companies, about 20 days.

—*Factory Management and Maintenance,* Vol. 110, No. 7

SHOULD PENSIONS BE TRANSFERABLE?

ONE OF THE current top-drawer union goals is to see that all pension agreements allow wage-earners to change jobs without losing the amount stashed away for them in the company's retirement fund. At first glance this seems to be an uncommonly reasonable demand. But on closer inspection there are a good many common-sense reasons for saying, "No, you can't take your pension with you."

It is perfectly true, as labor bosses point out, that unless pensions can be transferred workers will not be so anxious to move from one plant to another. And labor mobility, most people agree, is an essential ingredient of social and economic progress. The key question which must be answered is: Should a worker who quits or is fired before his normal retirement age be allowed to share in the fund accumulated for his benefit under a pension plan?

The union line on this question is revealed in a recent AFL Research Report. Here the statement is made that the best pension plan is one which provides for "full and immediate" mobility. The writer of the report goes on to point out that "basically, a pension plan is nothing more or less than a particularly convenient saving plan for a group of employees . . . . It is the workers' money that the employer is paying into the fund."

The owners and managers of business, who pick up a multimillion dollar tab for pension obligations each year, say that letting workers hold on to their pensions after they leave the company pulls the rug out from under the legitimate motives of such plans. Pensions, they state, are not merely deferred wages; they constitute one of a number of extra benefits hopefully offered by employers to contribute to a more stable, loyal work force.

The basis for this sharp difference of opinion seems to lie in misunderstanding on both sides. Workers and employers alike have shown they still think of private pension plans as just an extension of federal Social Security. It has become standard practice to think of public and private retirement funds as serving identical purposes.

The truth is that each type of pension plan can and should meet very different objectives. An outstanding feature of the federal system is that the wage-earner loses none of his benefits in changing jobs. His credits continue to accumulate no matter where he works, so long as he stays in covered employment. Of course, federal pensions are financed by contributions from both the worker and his employer.

But the great majority of workers under industrial pension plans contribute nothing to their cost. In a recent study of plans covering almost five million workers, BLS experts say the boss paid the entire cost in 80 per cent of the cases. If this is true, then why should not workers at least be required to stick with the company until retirement age if they want to share in the pension fund?

Both public and private pensions ought to be looked at in terms of the honest objectives and purposes which we believe each should serve. Few if any of the aims of business-financed plans would be furthered by letting a worker enjoy retire-

ment benefits after either quitting or being fired. Allowing workers to take their pensions with them will only add to the already widespread confusion on this subject. Our Social Security system and industrial retirement plans can each stand and flourish on very different, yet equally substantial, foundations.

—Arthur M. Whitehill Jr. in *The New York Times*, November 9, 1952, p. 8E.

JOB TENURE IN AMERICA: A SURVEY

Mobility always has been a major characteristic of the American labor force, and many surveys have been conducted to assess the magnitude and nature of job shifts and the characteristics of workers who make them. One of the more important of these, made early in 1951 by the Bureau of the Census, gives added insight into a major facet of the general problem of mobility: the length of time workers stay with the same employer.

The Census survey found that more than a fifth of the workers employed in January, 1951, were still working in the same jobs they had before Pearl Harbor, despite the war and postwar dislocations, the mass movement of men in and out of the Armed Forces and of women in and out of the labor force, and the extensive ups and downs in industrial demand during the past decade. Older workers made up the most significant part of this extremely stable group.

The most stable male workers were concentrated in four major occupations, most important of which was the skilled group of craftsmen and foremen—a group in which the majority of workers are older men and the investment in training time and specialized work experience is likely to be great. These, together with semi-skilled operatives, the self-employed, and managerial personnel (in that order) constituted seven out of every 10 men with a job or business dating back to Pearl Harbor or before.

White-collar work was the predominant field of concentration among women with jobs acquired before World War II, but almost a fifth of the women with long-term attachment to their jobs were working as semi-skilled operatives. Thus, for both men and women, semi-skilled factory work represents one of the most important areas of long-term job tenure.

Workers who at the time of the survey were holding jobs that they had obtained during World War II numbered about 7 million, or 12 per cent of the total. This group was small because millions of housewives and other wartime "extra" workers returned to non-worker status after the cessation of hostilities. Even those who remained in the labor force changed jobs in large numbers in the shift from wartime to peacetime production.

Twenty-six and one-half million workers, or 45 per cent of the total, acquired their current jobs during the period extending from VJ-Day to the outbreak of the Korean conflict. The period dating from the outbreak of war in Korea accounts for a little over 11 million persons, or about 20 per cent of the total. Thus, about two out of every three people employed in January, 1951, were working

at jobs which they obtained only since the end of World War II.

As a rule, job tenure varies significantly with sex. While there is little difference in the duration of job-holding between boys and girls in their teens or early twenties, a marked trend appears as they enter the adult age groups, when women drop out of the labor market at the time of marriage or childbearing. In the older age groups, the median number of years of continuous job-holding among men is double that of women.

One of the most important factors affecting the length of job tenure among American workers is occupation. The group with by far the longest job tenure comprises farmers and farm managers. In this category, the average duration of continuous association with the same employer was almost double that of the next highest group, the self-employed. The group with the next largest proportion of long-term job holding was the managerial and proprietary class off the farm.

The census tabulations show a marked difference in length of job tenure between the self-employed and wage and salary workers. In agricultural employment, for example, 50 per cent of the self-employed, but only 15 per cent of the wage and salary workers, were engaged in the same enterprise for nine or more years. Professional and technical workers as a group also show the influence of self-employment on job tenure. The majority of persons employed in this kind of work have made a comparatively heavy investment of time, education, and specialized work experience, and show, as might be expected, a large element of job stability. However, the biggest contribution to this job stability comes from the self-employed among the professional workers—doctors, lawyers, engineers, architects, etc.

The industry in which the occupation is performed also has a significant effect on the length of job tenure among workers. Industries in which seniority plays a pivotal part (e.g., railroads) or employment conditions in general are much more stable (e.g., utilities) have very high rates of job stability in comparison with such industries as trade or construction, where employment is much more intermittent and seasonal. Training time, skill level and specialized work experience are also important factors favoring stability of tenure.

—SEYMOUR L. WOLFBEIN. *Monthly Labor Review*, September, 1952, p. 257:6.

Who Pays the New Executive's Moving Bill?

A SURVEY of companies in the Cleveland area—which is considered to be representative of U. S. industry as a whole—has failed to discover any uniform policy for paying the moving bill of newly-hired executives.

The importance of the position, and the determination of the company to get a particular man to fill the particular job, are important factors in management thinking. Naturally, if a firm requests a person to call for an interview with an eye to hiring him, it normally pays his expenses for the trip; and if he joins the organization after the interview, chances are that the company will pick up the tab on the expenses of moving his household goods.

As for hotel and incidental costs, policy varies, but generally this comes out of the executive's own pocketbook. Some companies will pay for the new man's hotel room for a limited time, but usually this does not include his family. A month to

locate living quarters and to get his feet on the ground is about as much as even the most liberal companies allow the newly-hired executive, at least as far as paying his hotel bills is concerned. One or two weeks is a more usual length of time; and, as a rule, the bill may not cover meals.

—*For the Informed Executive* (Associated Industries of Cleveland) 9/12/52

Mill Town Tabloid: Company Experiment in Community Relations

THE COMMUNICATIONS TECHNIQUE evolved by the W. T. Smith Lumber Company is an interesting experiment in both community relations and industrial journalism.

Early last fall the company started publication of a tabloid for the 2,500 residents of Chapman, Alabama, where it operates a plant employing some 800 workers. The town has never had a newspaper, nor the company a publication.

In addition to company news (which is kept at a minimum), this eight-page sheet carries items of interest to the entire community—social events, school news, sports activities. There are also more general articles and some local advertising.

The editorial in the first issue announced that there was no intention of making it a company paper—that the publication was and would continue to be a newspaper for the dissemination of news about the people of Chapman, as well as any news about the mill which would be of interest to the people who were employed in it. The main purpose of publishing the newspaper, the editorial pointed out, was to give personal pleasure to the people who live or work in the town.

This project is expected to increase good will and understanding between the plant and the community in which it is located.

—*Stet* (The Champion Paper and Fibre Company, Hamilton, Ohio) 5/52

Lack of Leisure-Time Interests a Cause of Absenteeism

ABSENTEEISM is definitely linked with lack of recreational interests and proper social relationships, according to a two-year research study, begun in 1947 under the auspices of the Industrial Health Board of Great Britain.

In this study, a group of medical doctors and psychologists who investigated the causes of absenteeism among 3,000 male and female workers, both skilled and unskilled, found that 20 per cent of them were absent from work because they felt "depressed" or "not up to working" or were suffering from "nerves." These mild emotional illnesses caused one-third of all absenteeism due to illness, and were accountable for between one-fifth and one-quarter of all absenteeism—one and one-half as much lost time as was caused by influenza and the common cold.

"Clearly," says the report, "emotional illness is an important cause of industrial disability among employees. The most frequent cause of emotional illness is a lack of satisfactory human relationships. Those whose leisure time was spent alone or those with few recreational or leisure-time interests suffered from a higher degree of emotional illness (and had a higher rate of absenteeism) than the average."

—*Idea Clinic* (National Industrial Recreation Association) *No. 333*

SEVERANCE PAY for clerical and first-line supervisory personnel is standard practice with most big companies, according to a survey by McKinsey & Co., management consultants. Only half the companies checked, however, have standard practices for providing such pay for middle or top management.

—*Business Week* 10/4/52

WHAT YOU CAN DO ABOUT TURNOVER

WHY do so many turnover control programs fail to work? With an abundance of data available on labor turnover—rates, types, and underlying causes—it would seem to be not too difficult a problem to adopt policies that would reduce quitting and its accompanying costs. Although generalizations on any subject are dangerous, it appears that many present attempts to control turnover suffer from a threefold ailment: first, the exit interview is often misused; second, even when accurate figures on the reasons for voluntary separations are obtained, they are seldom analyzed to find out the kind of employee who is quitting; and third, even when accurate and complete data are assembled, they are seldom implemented by corrective policies.

The exit interview is used, of course, to find out the real reason why an employee wishes to quit or has to leave the company. Yet this important function is frequently entrusted to second-rate interviewers, who ask formal, cut-and-dried questions, fill out stereotyped forms and usually come up with "reasons" and "conclusions" that add up to exactly nothing as aids in reducing turnover.

It has been estimated that only one worker in five gives full and complete reasons for his quit during an exit interview. Most of them fear that criticism of any phase of company policies or management may deprive them of a good reference when they look for other work. This fear usually means that the worker gives an innocuous reason for his quitting, so the company won't "be mad" at him.

If exit interviews are held at all, therefore, they should be conducted by top-flight interviewers. It requires ingenious questioning and a keen knowledge of human nature to break down an individual's resistance and get at the background causes for his dissatisfaction with his work situation.

The interviewer, moreover, should be allowed flexibility in making his report. A good form can be a handy guide, but it should permit room for the interviewer's impressions and comments, as well as the departing employee's responses. The report itself should not be taken as the last word; if time and personnel permit, additional facts about the situation should be picked up from the employee's supervisor, his shop stewards, and any of his co-workers likely to have knowledge of his job outlook. These extra viewpoints may be all that are needed to throw the entire picture into sharp focus.

The average company that collects data on the reasons for employee separations usually compiles such data in reports that show which reasons are most common during the periods studied, so that specific corrective measures can be undertaken in these areas. However, most such reports fail to show the type of employee who is quitting, his age, sex, marital status, dependents, background, company service and skill. Such facts as these would enable an employer to take more effective measures to remove the particular sources of irritation. He might, for example, reduce separations among unskilled labor by providing better opportunity for advancement or improved working conditions—or, if conditions can't be changed, adjust hiring policies to exclude groups that have shown inability to adjust to the company's work requirements.

The company is far from rare whose personnel men conduct termination interviews, compile statistics on turnover,

make up reports regularly, send the reports on to top management, and then have the reports returned and filed away without constructive action of any kind. Obviously, recordkeeping and reporting alone will not operate to cut turnover one whit; only if the data are used as guides for action can they be of any real value.

Turnover is basically a morale and motivation problem to be approached in terms of the individual worker. As conditions within a plant change, turnover data may show the necessity for different kinds of corrective measures. Therefore, periodic review of turnover control measures is essential to the program's success.

—*Employee Relations Bulletin* (National Foremen's Institute), December 10, 1952, p. 3:4.

Good Feeling Is Key to Productivity, Survey Suggests

MANY MANAGEMENTS, in their labor relations thinking, still pay too much attention to physical frills and not enough to human feelings. While the frills can make a factory or office a more comfortable place in which to work, the biggest morale and best production come out of a certain homey atmosphere of friendliness and personal contact between top management and workers.

Some time ago, General Motors, using its own 79 plants as the laboratory, conducted an interesting study of the effect of physical environment on productivity. Because of its growing policy of decentralization, GM has some plants that are the last word in employee comforts—and other, older plants where there is less emphasis on razzle-dazzle. The survey showed that there was no difference in output between the slick and the staid plants. Workers who are impressed by swank factories and bowling leagues will normally gravitate to such plants, it seemed, while others, who don't give a hoot about externals or sports, will take jobs with companies that don't go in for showmanship. But GM did find that while frills and fringes made no dent one way or the other in individual productivity, the degree of camaraderie in the department or plant made a tremendous difference in ultimate output.

—LAWRENCE STESSIN in *Forbes* 10/1/52

New Facts on Older Workers

ABSENTEEISM and injury-frequency rates are lower, on the average, for employees aged 45 years and over than for their younger co-workers, according to a recent report of the U. S. Labor Department's Bureau of Labor Statistics.

Even under wartime pressures, however, industry has hesitated to employ the older worker until all other supplies of manpower have been exhausted. In the postwar years, especially, periods of unemployment have tended to have severe repercussion on workers 45 and over, who now constitute over one-third of our labor force.

Among the topics covered by the bulletin, *Employment and Economic Status of Older Men and Women*, are public and private pension and retirement programs, sources and size of older people's incomes, and the job experience of older workers. Copies of the publication are available at 30 cents each from the Superintendent of Documents, Washington, D. C.

Also Recommended . . .

HOW GREAT ARE LABOR'S POWERS? By Leo Wolman. *Nation's Business* (U. S. Chamber Building, Washington 6, D. C.), December, 1952. The growth of union power over the past 25 years has been largely due, in the author's opinion, to deliberate though short-sighted government sponsorship of the labor movement. Without new public policies, he says, joint management of business may eventually come about as a consequence of the ever-mounting number of issues subject to negotiation.

RECORD-KEEPING FOR WAGE AND SALARY STABILIZATION. By Ray M. Suter. *N.A.C.A. Bulletin* (National Association of Cost Accountants, 505 Park Avenue, New York 22, N. Y.), August, 1952. The small employer, who tends to think of wages and salaries in terms of people rather than charts and figures, will find it advantageous to become more record-minded, according to this article. Surveying Wage Stabilization Board regulations on length-of-service and merit increases, wages for new personnel, cost-of-living and "10 per cent" increases, etc., the author discusses the records needed in each case, and suggests means for their proper preparation.

HOW 10 COMPANIES CONTROL ABSENTEEISM. By Wells Norris. *American Business* (4660 Ravenswood Avenue, Chicago 40, Ill.), October, 1952. The high cost of absenteeism to management, amounting to an annual $56 per employee in wages and salaries alone, argues strongly for a well thought-out program to keep workers on the job. In this account of the measures adopted by 10 far-sighted firms, devices ranging from a company umbrella-loan service to comprehensive medical and indoctrination programs are described.

LEGISLATION AND THE OLDER WORKER. By Olive E. Young. *Employment Security Review* (Superintendent of Documents, Government Printing Office, Washington 25, D. C.), Vol. 19, No. 5. Because of the low birth rate during the 1930's, young people will be added to the working force in substantially smaller numbers during the next several years, and workers over 45 will therefore constitute an important supplementary source of manpower. This article reports on recent legislation aimed at barring discrimination on account of age, and concludes that while many proposed bills may fail of enactment or enforcement they are useful in keeping the problems of older workers before the public and in furthering efforts to change public opinion and prejudice.

COOPERATION IS KEY TO SUCCESS IN BUFFALO SUGGESTION PLANS. By E. Weller. *Plant Engineering* (420 Lexington Avenue, New York 17, N. Y.), November, 1952. The suggestion plans in use at each of three large manufacturing plants in the Buffalo industrial area are described in this article, which places special emphasis on the committee system developed by each firm to administer its plan. The experience of these companies shows that a suggestion system involving close labor-management cooperation produces not only valuable immediate results, in terms of suggestions, but also increased effort and better attitudes among workers.

LABOR-MANAGEMENT PRODUCTION COMMITTEES. *Canadian Business* (Canadian Chamber of Commerce, 524 Board of Trade Building, Montreal, Canada), October, 1952. Since 1945, the number of government-sponsored labor-management committees in Canadian plants has more than doubled, and, according to this article, they seem well on their way to becoming an established feature of industrial organization in Canada. Over-all, they have made a significant contribution to improved human relations, it is pointed out. In the minority of cases where committees have not been successful, their failure is traceable to a condescending attitude on the part of management, or employee attempts to inject wage and hour disputes into committee activities.

WHAT FACTORY WORKERS THINK NOW. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), September, 1952. Factory's broad survey of workers in 22 states reveals some interesting shifts in opinion, and throws light on workers' feelings about large-scale strikes and the union shop principle. A more positive general attitude toward management, and pronounced dissatisfaction with national union leadership, have not been accompanied, the survey shows, by any inclination among workers to accept management's views on national labor legislation.

MATERIALS HANDLING: OFFICES HAVE IT, TOO!

RAPID, continuous, quiet and efficient handling of paperwork is required in today's big offices and commercial business establishments. The "in" and "out" baskets are joining the office boy and runner as relics of the past, for the realization is growing that paper, too, is a material that can be handled with conveyors and other equipment to speed operations, increase efficiency, and cut costs. Increasingly, pneumatic tubes, belt and chain conveyors, and elevators—augmented by traveling handling-trays, racks, and tables—are being installed for intra- and inter-office use.

Probably the oldest and still the most widely-used handling system in business firms is the pneumatic tube, which is employed to speed work orders, invoicing information, shipping orders, parts requisitions and other office papers. An example of the comprehensive use of a tube system is that in operation at Timely Clothes, Inc., Rochester, N. Y. Here, heavy paper traffic moves between the main office on the first floor, the stock control office on the third floor, and the shipping office on the second. A system of three-inch tubes handles work-order sheets in quantity, as well as invoices, job tickets, correspondence, and routine matter. Two-way service is provided between the first-floor main office and the third-floor stock room, between the main office and the shipping room on the second floor, and between the stock room and shipping departments. Mail, cutting, and shipping orders which originate in the main office are dispatched continuously to the stock room. More rapid processing of all orders has resulted from this procedure.

In the new building of the Empire Life Insurance Company, Indianapolis, a built-in pneumatic system handles a heavy load of traffic comprising such papers as applications, medical reports, salesmen's records, checks, claims, invoices, and actuarial reports. Important papers are transmitted from department to department within seconds after they enter the system, and time-consuming sorting is automatically eased. A company spokesman has said that the savings of time and steps for key personnel and the replacement of messengers offset the original cost within the first year.

Smith, Kline & French, Inc., a Philadelphia firm which stocks and distributes some 30,000 drug items, uses belt conveyors to handle paper work. From the time an order is phoned in until shipment is made, papers travel from station to station continuously. The flow begins in the order-receiving room, where 16 girls handle hundreds of telephone orders per day. As orders come in they are immediately typed on forms, which are then placed on a conveyor that passes in front of each typist. This conveyor discharges to a second belt, at right angles to it, which takes the papers to the "order control" station. Here credit is checked, orders are segregated by size, bills of lading are made, and items are coded according to their location in the warehouse. Next, the order is dispatched through a vertical

chute to the warehouse floor below, where it is filled. A vertical conveyor brings the papers upstairs again, where they are discharged on to a third horizontal conveyor and carried to the head pricer for distribution among 12 assistants. The carbon copy of the original invoice goes to the shipping room to be put with the outgoing goods, and the original goes to "accounts receivable" for entry. With this system, only 40 people process the great order traffic, confusion is eliminated, papers are secure from loss, and the whole process from order to delivery is fast.

How conveyors can take over the major headaches of delivering and distributing mail is shown at Lever Brothers Co. and Dun & Bradstreet in New York. In the new Lever headquarters, a dumbwaiter-style conveyor delivers mail to any of the 21 floors in one-third the time formerly required by messengers, completing delivery eight minutes after mail arrives. The vertical conveyor carries baskets of mail from the main receiving station and drops them out on a gravity conveyor at the right floor. The system saves the company about $150 a week in mail distribution costs.

Dun & Bradstreet has a 13-story vertical conveyor to handle incoming mail and outgoing correspondence. As mail arrives in the basement of the building, it is placed in trays, which are carried by conveyor to the fifth floor and there automatically unloaded onto a spiral accumulator wheel conveyor line. After it has been opened and marked for the floor of the addressee, mail is placed in a tray, which is positioned in a wall opening. An indicator is set for the destination floor, the conveyor takes it there and automatically unloads it, and a light goes on to notify the attendant that a tray awaits attention.

A combination of pneumatic tubes and belt conveyors also speeds paper handling in some offices. In the Sacramento, Calif., office of McKesson & Robbins, for example, orders for merchandise to be filled from the warehouse come down tubes to the pricing department and are placed on the topmost of three belts, which flows into an accumulation tray that is readily accessible to all pricers. After orders have been priced they are placed on two lower belts, and the work is carried to comptometer operators.

—*Flow*, December, 1952, p. 54:7.

Eliminating Unnecessary Statements

MAILING STATEMENTS in time to reach customers before the 10th of each month usually produces a peakload problem in most firms, with resulting overtime.

The Vollrath Company, Sheboygan, Wis., asked 2,000 of its customers if they required this statement for their records. Of 840 replies, 329 indicated that the statement was unnecessary. Thus, at a total cost of about $35 for business reply cards and postage, a saving was made possible that will amount to 3½ cents per month for each of these accounts, on postage alone. On the addressograph of each of these 329 customers a special code is marked so that when statements are pulled each month they can be referred to the credit department for review and final disposal.

—W. P. McEniry in *Management Methods* 1/53

CENTRALIZING RECORDS CONTROL

Though records handling is as much a part of management today as accounting, purchasing, or sales, most business organizations still divide responsibility for records management among departmental heads, each of whom becomes responsible for the handling of records that originate in or are received by his department. This divided responsibility does not exist in other functions of most organizations, for obvious reasons; it is equally undesirable in the handling of records.

Since records are the working tools of the divisions of an organization, they should be under the control of a single executive. Alert companies, recognizing the advantages of centralized control, have appointed a records administrator and established a fixed records inventory procedure, with definite retention and disposal periods and dates. The idea that this is possible only with centralized files is erroneous. Centralized records administration is not dependent upon the location of the records themselves; whether or not these are in a single location, procedures for handling them can be brought under the control of a central authority.

For centralized control, a records department should be established under the direction of an executive officer. A records administrator, serving under him, should appoint a chief records clerk, to be responsible for the detailed work of the department. The records administrator should be responsible for planning the files so that filing meets the user's requirements and finding is certain; retaining and disposing of records; and maintaining a manual of filing operations, with a description of each file and of all operating procedures. Specifically, his duties should include: (1) control and follow-up of incoming communications; (2) control of outgoing communications; (3) maintenance of a complete up-to-date record of each planned file, describing the class of records and method of arranging; (4) separation of the permanent from the transitory records to facilitate disposal; (5) periodic elimination of the duplicate records that are maintained for current use only; (6) maintenance at all times of a staff of trained clerks for indexing and filing; and (7) maintenance of a complete schedule of records—whether in the centralized records unit or in other departments—with authorized periods for retention or disposal.

Centralized control should cover not only correspondence but *all* forms, documents, papers, data, supporting papers for book entries, audits, and supporting papers which are used to create records.

—Earl P. Strong. *Best's Fire and Casualty News*, September, 1952, p. 69:2.

Records Go Underground for Safety

A worked-out coal mine in Western Pennsylvania is the U. S. Steel Corporation's answer to the threat of possible destruction to its vital records as a result of warfare. To this pit, called "Mine X" because its location is a closely guarded secret, company records of all kinds have been funneled for more than a year.

These records will be safe from even a direct bomb hit in their new location, 200

feet underground. To overcome temperature and humidity disadvantages, the storage area is heated to 70° F, and electric devices reduce relative humidity to 60 per cent. In all, 75 acres have been bought for storage purposes, although two storage rooms in use to date total only 16,000 square feet.

In an average day, ten rolls of microfilm records and 254 envelopes of business papers are received for cataloging and filing. More than 6,000 rolls of microfilm records have been filed so far, as well as some 38,000 cartons of records from World War II experience and over 5,000 cartons of long-term corporate records. Additional shelving space for 63,000 cartons of records has been provided. It is estimated that well over 100 million records can be stored in the main record room.

—*Iron Age* 11/13/52

Some Facts About Noise and Efficiency

NOISE makes people grumpy; it also lowers all the faculties, dulls mental processes, and makes people irritable and pessimistic. People react to noise and fear in about the same manner. These are some of the conclusions presented by R. Allen Wilson, a noise expert, in a recent discussion concerned with improving working conditions in offices and plants.

The effect of noise in terms of fatigue and inefficiency has long been neglected or underestimated. In a telegraph office it was found there was a 43 per cent reduction in errors after the noise had been lowered from 50 to 35 decibels—and, furthermore, a 3 per cent reduction in the cost of the messages.

Measurements of caloric energy expended show that in the case of typists 90 per cent more energy goes into their work if done in noisy rooms. Mr. Wilson has estimated the cost of noise to business at approximately $4 million a day.

Another noise expert, H. C. Hardy, has cited experiments that show noise reduction has resulted in increases in efficiency as great as 9 per cent; reduction of errors by 30 to 50 per cent; reduction in absenteeism and employee turnover of 50 per cent.

Under noisy conditions, according to Dr. Karl Kryter of Harvard University, errors from misunderstanding become greater, and time is taken up repeating instructions or dictation—or else effort is expended in talking louder. The extra effort, he says, may amount to a significant nervous strain.

—WALDEMAR SCHWEISHEIMER in *Business Management* 10/52

Getting Rid of Dead Records

WITH ITS basement storage space literally splitting at the seams, a midwestern company decided recently that it was time to set about housecleaning in its filing department.

A filing consultant was called in and a list made of every record in the department. Then the lists were checked with company officials, and changes were discussed. At first, some department heads were reluctant to throw out any paper, but everybody soon agreed on the new program. Retention periods were set up for all records that were not to be destroyed. The longest period given any record was 10 years, while the average for all records was five years.

Every paper left in the filing department at the company was indexed with a location and destruction date. In some cases where retention periods seem to be

longer than necessary, the filing department supervisor is keeping a close watch on the number of times these records are used. If, after two or three years, these 5- or 10-year records are no longer requested by somebody in the company, their retention periods will be shortened. For all practical purposes, a check is really being made of every record in the filing room.

—*Records Management Review* Vol. II, No. 12

Also Recommended • • •

WORK-SIMPLIFICATION PROGRAM SAVES $61,000 IN FIRST YEAR. By Wells Norris. *American Business* (4660 Ravenswood Avenue, Chicago 40, Ill.), November, 1952. Thirty top executives and 300 supervisors and technicians have finished taking work-simplification courses at the Bell & Howell Company, Chicago, and about 1,900 non-supervisory workers have yet to undergo similar training on company time. This article describes some of the 75 work-place improvements—many of them in the office—that have resulted to date from this program.

ELECTRONICS AND THE OFFICE. *Records Management Review* (Office Methods Division, Administrative Office, Department of the Navy, Washington, D. C.), October, 1952. This article describes the characteristics of electronic computers already in use; discusses their principles, uses, and costs; and offers some recommendations for their utilization and application. Radical changes in computer design, it is asserted, may take place within the next two years—some as a result of the substitution of transistors for many of the bulky, hot, and expensive electronic tubes now in use.

CHRYSLER COMBINES RECORD-KEEPING. By Dwight G. Baird. *American Business* (4660 Ravenswood Avenue, Chicago 40, Ill.), November, 1952. Thirteen workers and a supervisor keep group insurance and pension records on 100,000 employees in the Detroit offices of the Chrysler Corporation, where combined record-keeping and the use of several types of automatic business equipment have cut work duplication to a minimum. This article describes the types of record kept for each worker and the ways in which information is recorded and filed.

WESTERN ELECTRIC SAVES MILLIONS OF DOLLARS WITH ITS EFFECTIVE STANDARDIZATION PROGRAM. By Kenneth B. Clarke. *Office Executive* (132 West Chelten Avenue, Philadelphia 44, Penna.), January, 1953. This article details typical changes in specifications that have drastically reduced costs at Western Electric for office stationery and paper stocks, forms and records, office furniture, filing equipment, and small office supplies. On the latter group alone—which consists of such small items as paper clips, erasers, mucilage, etc.—an estimated savings of half a million dollars has been realized over the past several years.

LETTER WRITING CONFERENCES AT CHRYSLER. By H. H. Harbison, Jr. *Better Business Communications* (Wayne University Press, Detroit 1, Mich.), 1952. A series of 10 two-to-three-hour conferences, each devoted to a particular aspect of business letter writing, is designed to help correspondents at Chrysler Corporation write letters that are logically well constructed, reflect the reader's viewpoint, and use simple, familiar language. This article reviews the content and method of the conferences, which emphasize general principles of tactful and effective communication rather than specific mechanical techniques.

HOW TO PUT THE BRAKES ON THE 10 A.M. "COFFEE KLATSCH." *Management Methods* (141 East 44 Street, New York 17, N. Y.), January, 1953. This article reports the methods adopted by various companies to reduce time off the job without denying to workers the rest and refreshment afforded by the mid-morning coffee break. The use of outside service agencies and vending machines to enable the employee to take a break without leaving his work place has resulted in significant economies as well as improved employee relations for many firms.

Manufacturing Management

SOME QUESTIONS AND ANSWERS ABOUT AUTOMATION

A PIONEER in the field of automation is the Ford Motor Company, whose Cleveland Engine Plant is a present-day example of the factory of the future. Based on Ford's practical experience with automation, here are the answers provided by Ford's production experts to some key questions about automation:

What distinguishes automation? How is it defined?

A good definition of automation is: "completely automatic (and selective) transfer of a part from one processing operation to another." Automation includes both automatic unloading of one machine and automatic loading of the next, but it means more than just "hooking together" handling and positioning equipment. Automation devices make full use of electrical memories and selector circuits; the ability to perform routine jobs of deductive reasoning is built into them.

What are the most important benefits of automation?

First, it increases machine efficiency. By keeping machines running at peak capacity and by eliminating delays and shutdowns for feeding and removing materials, automation may raise machine tool efficiency to as much as 90 per cent. Moreover, automation makes it possible to keep up with the higher feeds and speeds now available to industry.

Second, automation conserves manpower. Muscle power is little used in an automated plant. Brains and skill, however, are needed; as a result, employees' jobs will be more interesting.

Third, automation improves quality. An automation device doesn't drop or fumble parts, and there's no variation in its performance. Also, it offers far greater opportunity for "building inspection into the process."

Fourth, automation increases safety. Fewer people handle parts or work close to production equipment.

Fifth, automation reduces in-process inventories. Complete automation, in fact, requires continuous movement of all materials; nothing is stored or warehoused.

What can be automated—economically?

Almost any operation. As a general rule, the number of manual operations in a process is the key to its economical automation. The test of cost-per-piece with and without automation is a good measure of which operations to automate.

How does a company organize for automation?

Your automation organization should probably be started as a separate function or department under your manufacturing vice president or superintendent, or someone else who can build teamwork among your engineers. Whether you want to automate a couple of operations, a line, a department, or a whole plant, your approach will be the same. First, you will make preliminary plans and sketches, or at least operation descriptions that are complete enough to per-

mit estimators to figure costs. Cost estimates should be based primarily on man-hour savings, with due allowances for engineering costs, some delays, increased maintenance costs, and higher individual skills needed to operate automation equipment. If your figures are accurate and show a pay-off period of about a year, automation would appear to be worth while.

How much pre-planning and pre-testing of automation devices is necessary?

If your automation devices appear complicated, make some inexpensive models. The testing will probably reveal bugs to be corrected; so the investment in a working model or models will save you time and money in the end. In pre-testing, be sure to check tolerances, clearances, gates, switch locations, trip locations, power unit operation, wiring, piping, clamps, etc.

How much standardization is necessary for automation?

Working height of production equipment and automation devices is important; the "working plane" for heavy or bulky parts should be at a uniform elevation for top efficiency. Generally, simplified design of automation equipment lessens the variety of parts, thus making purchase, installation, and maintenance easier.

What influence does automation have on production equipment?

Since it will be necessary to tie each end of the machine to a piece of automation equipment so parts in process can flow straight through machines and succeeding operations without manual loading or unloading, there is a strong probability that your old production equipment won't do. Moreover, you may have a difficult time persuading machinery makers to produce the unusual kind of equipment you want—though suppliers are increasingly gaining confidence in their ability to produce the needed equipment. It is essential to specify electrical controls in all cases.

What type of training is needed for employees?

For the most part, training breaks down into two kinds—production and maintenance. For training production workers to operate automated lines, standard machinery operation instruction can be used; however, actual demonstrations of the cycling machines and automation devices are essential. Otherwise, automation brings little else that's new to production work.

Maintenance training is a little more involved. One reason why some companies have stuck to electrical rather than electronic equipment is to eliminate any need for electronics specialists. Actually, good plant electricians can be trained as circuit technicians; the hardest training job here, it seems, is to make electricians aware of their mission—keeping the one big integrated automation circuit in mind at all times. On-the-job training is the best answer.

—*Factory Management and Maintenance*, December, 1952, p. 104:5.

THERE is nothing noble in being superior to some other man. The true nobility is in being superior to your previous self.

—Hindu saying

COLOR IN INDUSTRY: SOME NEW APPLICATIONS

In recent years, intensive research has made the influence of color and lighting a major consideration in industrial planning and plant design. Color and lighting engineering has resulted in an improvement in worker morale and with it, efficiency.

However, studies by the Better Vision Institute point up the toll on eyes still taken by improper color and lighting. One of three workers in the United States needs glasses. Fifty per cent of office and textile workers and 75 per cent of garment workers have faulty vision. Such conditions indicate the need for much more efficient use of color and lighting.

In color and lighting planning, it is important to remember that, although visibility depends on good illumination, good illumination does not always mean more light. Because it can be rigidly standardized at all times, artificial lighting often promotes greater efficiency and safety than daylight. Glareless lighting and clear but restful color contrasts should always be the goal of color and lighting engineering.

Good reflecting colors usually promote the greatest worker efficiency, while cutting lighting costs. White has a reflection value of 88 per cent; cream, 69 per cent; ivory, 67 per cent; sky blue, 65 per cent; pale green, 59 per cent; buff, 52 per cent; and gray of the type used in many old-fashioned factories, only 50 per cent. With the exception of yellowish, colors will not reflect efficiently if they are too far removed from white. The Illuminating Engineering Society reports that in one large office-building a change from light buff to white ceilings and the addition of cream-colored walls would have cut lighting costs about $14,000 per year.

Too much or too little contrast often spells eyestrain. A dark desk-top contrasting sharply with white paper strains the eyes of the busy stenographer or bookkeeper; light gray desk-tops are more restful. However, on adding machines appropriately contrasting colored keyboards improve legibility, thereby increasing accuracy. A stocking factory, alert to the need for providing proper color contrasts, changed dark work surfaces to light blue, saving the eyes of girls working on dark-colored stockings and cutting down rejects.

Distinctive colors center attention upon moving machinery parts, while neutral backgrounds eliminate distraction from the field of vision. Anyone who has tried to thread a needle will understand why hosiery workers looping thread over a series of fine needles in one factory were distracted by strong light contrasts and by the movement of neighboring workers. Gray-blue panels around the tables shut out confusion and provided a needed neutral background. In another factory, a small, pale-gray mask behind a riveting machine, pin-pointing the operator's attention and cutting out visual distraction, succeeded in saving many fingers from damage resulting from faulty distance estimation.

In the factory, as in the home, a flight of stairs can be made safer by painting it with colors which reflect more light. Dark stairs should be painted white with fluorescent or phosphorescent paint on the risers. Structural hazards, like low door frames, should be painted in colors which attract the eye of the unwary.

The spatial behavior of color should be

also considered in color planning. "Reverse camouflage" makes desired objects easier to see. Thus bands of "safety yellow" along the sides of aisles can stop workers from drifting into dangerous traffic zones, while black and yellow striping on floors or overhead can warn of obstacles. Also, spatially used, the appropriate green applied to walls in cramped spaces can move them back visually.

—HOWARD KETCHEM. *National Safety News*, November, 1952, p. 28:11.

Incentives Cut Engineer Turnover

OF NEARLY 500 companies covered in a recent nation-wide survey by the National Society of Professional Engineers,* 42 per cent reported that they found engineer turnover a problem in maintaining an efficient engineering staff. Such benefits as hospitalization and insurance were considered effective in reducing turnover, although 81 per cent of the companies said they believed that the relative importance of benefits had declined, particularly among the larger companies, almost all of which now offer them.

In general, incentives were believed more important than benefits. Those regarded as most effective were shown by the survey replies to be as follows, in order of importance: (1) opportunity for advancement; (2) stability of employment; (3) chance to receive extra training; (4) essential industry; (5) profit-sharing plan.

* *How to Improve the Utilization of Engineering Manpower.* National Society of Professional Engineers, 1121 Fifteenth Street, N. W., Washington 5, D. C.

Rejuvenating Machine Tools

MORE THAN 100,000 factory tools headed for retirement at Chrysler Corporation plants have been put through a reconditioning process in the past year to extend their useful lives several times beyond normal, thus cutting costs while at the same time conserving vital metals.

The program is carried on by the Non-Productive Material Control Department, which receives the worn tools, classifies them, and routes them to stock bins. All tool purchase requisitions are routed to this department, which checks specifications of tools requisitioned against tools in the stock bins. If an obsolete tool can fit the new purpose, or be economically reworked to meet the specifications, the new purchase is avoided.

—*Purchasing* 1/53

A RECENT SURVEY conducted by the National Society of Professional Engineers indicates that the ratio of engineers to total employees in defense and defense-supporting industries has changed from an average of one engineer to every 40 employees in 1940 to about one engineer to every 20 employees in 1952. The present engineering demand was found not to be based upon defense alone; modern industrial, business, and scientific requirements call for more engineering manpower than ever before.

Also Recommended . . .

BETTER HANDLING SAVES BUILDING SPACE. By Joseph E. Wiltrakis. *American Machinist* (330 West 42 Street, New York 36, N. Y.), December 8, 1952. This article describes a new method of analyzing space utilization to determine whether it will pay to improve materials-handling methods and facilities. The device described is a mathematical formula, employing six terms, which can be used to determine how much space is required in a new plant, how space can be saved in existing plants, and what handling methods will make possible the most effective space utilization.

DAILY MAINTENANCE SCHEDULES FOR 1,000 MEN IN 15 MAN-HOURS. By M. C. Hudgins. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), October, 1952. This article describes in detail how one company shifted from a weekly to a daily schedule for maintenance work. Among the numerous benefits resulting from the switch were a reduction in make-ready time and the opportunity to establish daily priorities on job orders. Illustrations show the simple paperwork involved.

P CHARTS IMPROVE METHODS FOR DETERMINING DOWN TIME. By G. Nadler and D. H. Denholm. *Iron Age* (Chestnut and 56 Streets, Philadelphia 39, Penna.), November 27, 1952. Ratio-delay techniques have been widely employed for the determination of machine down-time percentages—one of the most difficult problems connected with the development of incentive formulas in industrial plants. This article explains how the accuracy of results obtained by ratio-delay method can be enhanced by the application of a common statistical quality-control device.

MANAGEMENT TECHNIQUES CUT MAINTENANCE COSTS 20%. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), December, 1952. A detailed, step-by-step account of how a resourceful plant engineer (Public Works Officer, in naval terminology) achieved remarkable results by using new administrative methods to improve the maintenance program at the U. S. Naval Shipyard at Pearl Harbor, Hawaii. His experience indicates that the best approach to a general reorganization of the maintenance program is to establish the new organization first, and then design procedures to fit it.

NEW PLANT LAYOUT STREAMLINES PRODUCTION. *Steel* (Penton Building, Cleveland 13, Ohio), October 27, 1952. By bringing machines to the work instead of taking work to the machines, even the small manufacturer can achieve the incease in efficiency and the economies in materials handling that go with big-plant mass-production techniques. This article describes in detail how one maker of machine tools accomplished the installation of straight-line production methods and the complete integration of materials handling with production.

CAN YOU AFFORD AUTOMATION? *Production Engineering & Management* (Birmingham, Mich.), January, 1953. This is the record of an informal round-table discussion of automation in which 10 top production executives from the automobile industry participated. Numerous technical details are discussed, and general questions of cost and efficiency are resolved in terms of the concrete experience of the companies represented.

HOW TO CUT OVERHEAD COSTS. By Daniel E. McNeil. *American Machinist* (330 West 42 Street, New York 36, N. Y.), September 29, 1952. This article outlines a comprehensive program for reducing operating expenses which has been found capable of producing, over a two-year period, dollar savings equal to 10 times the amount spent on installing and maintaining it. Among the features of the program are a point system for the accurate apportionment of building service charges and the use of flow charts to control the amounts of indirect labor used at various levels of production.

TRUCK DOWN-TIME CUT 86%. By Dwight G. Baird. *Mill & Factory* (205 East 42 Street, New York 17, N. Y.), December, 1952. A thorough and systematic preventive maintenance system installed a few years ago at Ford's Dearborn plant has reduced down-time on industrial trucks to 6 per cent and extended their operating time between overhauls to as much as 8,000 hours. As described in this article, the program includes such features as a strict inspection system, detailed operator logs for each vehicle, and localized repair shops for minor repairs.

THE LANGUAGE OF ADVERTISING

OVER the past few decades, Americans have mastered a second language, unique in usage and syntax. It is the language of advertising—the language of "Quick, satisfying relief," "No other," "Never before!", "At last!"

On grounds of taste and aesthetics, this language is almost universally deplored in academic and intellectual quarters. Of all the criticism heaped upon it, however, none is so shrewd as that now coming from advertising's own trade press. Says C. B. Larrabee, publisher of *Printers' Ink*: "Advertising is eating up words faster than its people can think up new and startling meanings for the words."

Yet the language of advertising rolls on. While its custodians freely concede that it offends the sensitive ear, they imply that the double standard is a necessity. The language of advertising, they say, is not meant for the intelligent, but for the Mass Audience, and there it does what it's supposed to: sell goods.

Is it really the *language* of advertising that does the trick? Certainly it is reasonable to assume that ads which communicate well sell more goods than those which communicate badly. But what makes for effective communication? Thanks to the growth of advertising-copy research, a prodigious amount of data pertinent to this point has been unearthed. One relatively new technique, developed under the leadership of George Gallup and Claude Robinson, is designed to find out, by getting people to repeat the gist of ads they've read, how well the copy is conveying its message—and thus what its impact has been. This suggests a number of questions: What are the recurring elements in the high-impact ads? In the low ones? In which does the language of advertising appear most often? Is there, in short, a correlation between an ad's impact and the "ad-iness" of its copy?

To establish some objective criteria of "ad-iness," *Fortune* studied the ads of two leading consumer magazines. After 60,000 words of copy had been analyzed, seven devices, by the sheer frequency of their occurrence, began to emerge as identifying marks of "ad-iness." These were: (1) stock words and phrases; (2) multiple adjectives, piled up tandem-fashion before the noun; (3) hyphens, a measure of the number of coinages ("Dura-Jet Action") and of abbreviated similes ("tree-strong," "silver-bright"); (4) three dots—particularly common in evocative-type prose; (5) quotation marks, when used around colloquial phrases not ordinarily quoted, or when the advertiser quotes himself; (6) italics and underscoring, often combined; and (7) extravagant use of exclamation points.

When the frequency of each of these devices in the 60,000-word sample had been established, it became possible to measure the "ad-iness" of individual ads by totaling the number of hyphens, cliches, and the like in each ad and then dividing by the wordage of the ad to produce a rough index of "ad-iness" per

100 words. While this index is only a simple tool of observation, it is a fairly accurate one, since frequency of one device in an ad usually means that others will be prominent in proportion.

Since the magazines used in *Fortune's* "ad-iness" analysis had also been studied for ad impact by the Gallup-Robinson organization, a valid basis for relating impact and "ad-iness" was at hand. Comparison showed that the average of 10 top-impact ads appearing in a single issue of one of the magazines showed *below-average* in "ad-iness," while the average low-impact ad ranked well *above* average in this respect. Moreover, when 25 ads that had ranked highest in impact over a three-year period were rated for "ad-iness," along with 30 low-impact ads, the same kind of correlation was observed—although, of course, many individual variances appeared.

What this little experiment afforded was only a presumption, but a fair enough one: namely, that "ad-iness" tends, all other things being equal, to reduce the potential impact of an ad. To provide additional evidence, leading research groups were canvassed for their opinions on the subject. Surprisingly wide general agreement was displayed on the following points:

Brag copy usually doesn't work. Either people don't believe the claims, or they don't care, or they mistake what is being advertised against (such as a competing product) for what is being advertised. When the advertiser has a significant new claim to make and is first on the scene with it, brag copy may work; but even then diminishing returns set in very quickly.

Coinages have extremely low communication power. If they are self-defining or tell a story (Meter-Miser) or if they are applied to a basically new product (Hydramatic) they may register. Otherwise, the chances are slim.

Trick headlines often get high initial readership, but they have a tendency to pull people into the ad who have no potential interest in the product, and who turn the page as soon as they find they have been hoodwinked.

Layout stereotypes: Since prose "ad-iness" and the visual type seem to accompany each other, it is interesting to note that too-characteristic visual devices tend to repel rather than command readership. Conversely, ads that lean toward editorial format tend to score high—because of their informativeness, credibility, and reader interest.

All these testaments of consumer resistance point toward the falsity of one of the most prevalent concepts of American life: the idea of the Mass Audience and its mathematical unit, the great anonymous dope—who doesn't exist at all except in statistics. The American consumer is much more sophisticated than that. The language of advertising is no longer manipulating him, deceiving him, or even making him mad. It's just boring hell out of him.

—WILLIAM H. WHYTE, JR. *Fortune*, September, 1952.

IN 35 per cent of all homes, a recent survey showed, the man of the house—either alone or accompanied by the woman—does the major portion of the food shopping. In 52 per cent of all homes, he does at least part of it.

—*Journal of Commerce* 11/25/52

HOW TO INTRODUCE A NEW PRODUCT

A SALES MANAGER was recently asked how the sales of his new product were coming. "Terrible," he moaned, "my distributors and salesmen are no earthly good."

If the truth were told, his distributors and salesmen are about average. He hasn't achieved greater success in marketing his new product because he has failed to provide them with proper support. The following checklist, drawn from the experience of firms whose launching of new products has been unusually successful, outlines seven steps the sales manager should take in introducing a new product:

1. *Educate and stimulate salesmen.* This is probably the key to the success or failure of the entire operation. The job is usually threefold.

First, you must train and stimulate your own salesmen. One large electrical appliance company considered this so important that it had special motion pictures prepared and spent five days in concentrated sales meetings. Other companies have regional sales meetings featuring movies, and some hold telephone meetings.

Use whatever method fits your requirements and budget, but be sure your salesmen are prepared, for they must then train and stimulate your distributors' salesmen. To help their salesmen do this, large companies hold big regional distributor meetings with movies and professionally acted skits. Smaller companies usually hold individual distributor meetings with one company salesman doing the training. In such cases the salesman should be well equipped with suitable tools. These tools may be sound-slide films, or just slide films (this medium is so inexpensive that almost every company can afford it), flip sheet visual presentations, samples, demonstrators and other props.

How well your distributors' salesmen have been trained will largely determine the third factor—how well these salesmen train and stimulate your dealers' salespeople. This is one of the most vital steps. All too often, after millions have been spent on national advertising, the sale is muffed at the retail level. The same training media that are prepared for distributors can frequently be used for this task.

2. *Announce your product.* Plans must be made to announce it to the company salesmen, the distributors, the dealers, and the consumers. Many companies use various teaser devices in mailing pieces, telegrams, space advertising, and radio to arouse interest in the product announcement. A metropolitan brewery, for example, ran a series of cartoon teasers for its new beer. A shirt manufacturer had his new product delivered by Western Union to give it added importance.

Companies that can't afford to announce a new product on a national basis can often do an effective job city by city. An automobile maker, for example, mailed out attractive invitations to local prospects to come to his distributor's showroom to see his new models.

3. *Advertise.* Don't put off planning your new product advertising. Most companies begin about a year before the product is scheduled to hit the market. There is some divergence of opinion, however, about how many months the advertising for a new product should

precede the product's actual availability to consumers. Many sales managers feel that desire for a new product, once it is kindled, cannot be kept burning for several months. Therefore, they don't break their introductory campaign until the distributors' and dealers' shelves are stocked with the new product.

You should also investigate the opportunities for tie-in advertising. You can often increase sales by advertising your new product with that of another manufacturer.

4. *Provide point-of-sale aids.* Most recent surveys have indicated a woeful lack of selling at the retail level. It is therefore up to you to help the retail clerk with every means available. These include all manner of window displays to catch the attention of passers-by and entice them into the store and effective counter displays that induce the prospect to demonstrate the product to himself.

5. *Provide samples.* Some products can frequently be introduced and promoted through samples. Direct mail can be used in a wide variety of ways to facilitate sampling of new products. Coupons mailed out may be redeemed for samples, either free or at reduced prices. In many instances, the product is such that the samples themselves may actually be distributed widely bv mail.

Though we generally think of sampling in connection wih consumer goods, merchandising-minded manufacturers of industrial goods are adapting these techniques to their own sampling needs. Inducements range from trial installation offers, through processing parts on a specific machine, to double-your-money-back offers on some industrial products.

6. *Use incentives and contests.* It is not uncommon for a manufacturer bringing out a new product or line to employ incentives to stimulate his sales force to push the new merchandise.

Incentives are also used to encourage the sales of new products at the distributor or jobber level. One manufacturer, for example, is now using merchandise prizes to encourage his distributors' men to speed the introduction of his new combination suntan lotion and insect repellent. However, since some employers object to incentive plans from the outside, it is always advisable to obtain the distributor's or dealer's approval before informing his men about any such projects.

7. *Publicize.* To do this on a big scale generally requires an experienced hand, though amateurs occasionally stumble onto practices that are effective. A press conference is one excellent way of getting your story to the press in the way you'd like them to have it. Another is to mail a press release and suitable photograph to magazines and newspapers that might conceivably find the item newsworthy. If you can afford it, enclose a sample. Similar courtesy to radio and TV commentators may pay off.

—Louis H. Brendel. *Printers' Ink*, Vol. 239, No. 10, p. 27:3.

FOR SALESMEN: Confucius say: Salesman who cover seat of chair instead of territory stay on bottom.

—*The Employment Counselor* (National Association of Personnel Consultants) 11/52

CAN THE MANUFACTURER'S AGENT HANDLE YOUR SALES JOB?

As an alternative to the company-operated sales staff, use of the manufacturer's agent has certain advantages and certain limitations. In general the advantages of an agent and his type of operation include:

1. *Predetermined selling expense.* Personal selling expenses as a percentage of sales may be rigid when a sales force is used, but other sales costs, although controllable in dollar amounts, bear a variable ratio to sales, depending on the volume of trade. When an agent is employed, cost automatically stabilizes, because the compensation rate is absolute. This factor may be of particular importance to the small manufacturer, or to one whose sales are characteristically vulnerable to seasonal or cyclical fluctuations.

2. *Little or no cost until sales are forthcoming.* This is particularly important in the case of the new, small, or weakly financed manufacturer, who cannot afford a substantial investment to recruit, select, train, and maintain salesmen in advance of any income obtained from sales.

3. *Economy.* Revenue received from trade whose volume is limited by a narrow market, or one of limited sales potential, may not offset the cost of sustaining a company sales force. The manufacturer's agent, however, spreads his selling expenses among several producers.

4. *Intensity of territory coverage.* To obtain sufficient volume to offset its cost, the territory of a company sales force may need to be large; and under these circumstances the smaller and less profitable accounts tend to be overlooked or avoided. The manufacturer's agent, however, may be able to obtain a profitable volume from a more restricted territory because of his multiple lines, since an adequate all-product volume from an individual account will justify regular calls.

5. *Accessibility to the trade.* Entree to otherwise difficult prospects may easily be secured because of the agent's multiple lines. Also, the agent usually can secure the audience of a regular customer to present adequately a new client's line.

6. *Ease of sales administration.* Regardless of economy, management problems incident to maintaining a sales force are in a large measure shifted from the manufacturer to a more specialized marketing institution. Actually, by using agents, the manufacturer has the benefit of numerous "sales offices" maintained throughout the territories by his representatives.

7. *Quality of sales representation.* Agents having long years of experience in a given trade and possessing a comprehensive knowledge of the market for a particular line may be obtained by a manufacturer who would have difficulty in recruiting this type of salesman for his own sales force.

8. *Aggressive selling.* Although the degree of aggressiveness depends upon the individual agent, his remuneration is entirely dependent upon the productivity of his own efforts, not upon salary.

9. *Immediate entry to the market.* By electing to sell through representatives, a manufacturer has immediate access to a definite clientele of relatively permanent customers.

10. *Rapidity of regional or national distribution*. Several years may be saved in attaining complete market coverage by the manufacturer who elects to distribute through agents.

From the buyer's viewpoint, too, an agent sales force may also offer certain advantages over company salesmen. Better service may be obtained from the agent because of his smaller territory and his greater stake in the individual customer. The buyer's time may be conserved by the agent, since he offers several lines of products. Finally, advice from an agent is likely to be less biased than that of a company salesman, whose one responsibility is to push his single product line.

From the manufacturer's point of view, use of an agent sales force entails these limitations:

Cost. After a given volume of trade has been attained, manufacturer's salaried salesmen may be employed at a smaller ratio of cost to sales. Particularly in times of strong markets, use of company salesmen appears more economical.

Lack of control. Although the manufacturer can control the major policies and procedures, he has trouble in controlling the agent's detailed activities, since the agent is responsible for guiding the daily operations of his own establishment.

Partial representation and incomplete realization of market potential. Because each client must share the selling efforts of the agent with other manufacturers, maximum coverage of a given territory or the obtaining of maximum market potential may be impossible. Also, the agent may deliberately refrain from securing maximum sales volume to eliminate the risk of being replaced when a certain volume of business has been attained. Proper selection of agents, complete understanding between agent and client firm, and explicitly stated objectives may, of course, minimize this possibility.

Less stability. Should the agent choose to discontinue his relationship with the principal, he may be able to shift a substantial volume of the trade to the products of another manufacturer, since the sales volume attained may have been inspired more by the agent's personal prestige than by product acceptance pure and simple.

Difficulty of direct contact with buyers. When a manufacturer uses an agent sales force, he removes himself one step from his customer, and consequently is less able to observe closely market conditions, buying habits, and customer needs or preferences.

—THOMAS A. STAUDT. *Industrial Marketing*, October, 1952, p. 46:12.

AMA MARKETING CONFERENCE

The Marketing Conference of the American Management Association will be held Monday-Wednesday, February 9-11, 1953, at The Hotel Statler, New York.

Food Packages—Are They Passing the Self-Service Test?

MORE THAN HALF of the thousands of jars, cans, and packages lining food store shelves today fail to do the selling job required by self-service conditions, in the opinion of a group of outstanding package designers. They point out that in a self-service store a package must either sell itself or remain unsold.

Manufacturers are increasingly accepting this fact, but a considerable number of companies—notably those controlled by older men—are resisting the trend, for reasons that range from "expense" to "tradition" to plain inertia.

In the designers' opinion, such conservatism is suicidal. "Remember that a customer may spend only 30 minutes in a food store," says designer Egmont Arens. "She is faced with 3,000 or more different products, and makes her selection to a large extent on impulse. Obviously a package that attracts her eye has a better chance of being selected than a drab-looking competitor." The first requirement of a package, the designers agree, is that it stand out in comparison with its competitors.

The trend toward dynamic, rather than static, packages means that manufacturers will have to reconcile themselves to constant redesigning. This is already evident in several lines, notably cereals. In a not inconsiderable number of firms, management still chokes over the expense this entails. Package designers answer that the cost should properly be charged off to point-of-purchase advertising, because that is what the new packages represent.

—*Journal of Commerce* 11/3/52

Your New Product: What the Retailer Wants to Know

A SURVEY OF retailers in 64 cities, half of whom do an annual business of $10,000,000 or more, has been conducted by John Falkner Arndt & Co., Philadelphia, to determine what retailers want to know these days about new products and marketers' advertising plans for them. Here are some sample questions and the percentage of retailers interested in answers to them:

"How many prospects for the product are there in my store's market?"—61 per cent.

"What features of the product appeal most to consumers?"—60 per cent.

"Will the product's price be within the consumer's reach?"—44 per cent.

"Will the product's price compare with similar products which may be introduced?"—41 per cent.

On advertising plans, some questions were:

"What other retailers, if any, will be selling the product in my store's market?" —70 per cent.

"Will you help bear the costs of local advertising support? In what proportion?" —66 per cent.

"What national advertising and promotion effort are you putting behind the new product?"—52 per cent.

—*Tide* 10/24/52

Tighter Standards for Hiring Salesmen

THE HIGH STANDARDS many companies set for their new salesmen are illustrated by the requirements of one big business machine manufacturer, which has more than 50 reasons for *not* hiring a salesman.

The salesman this company hires must be within definite age limits. Just a year off, one way or another, keeps him off the payroll. Nor can he have private means. The company will not hire a salesman who lacks a real incentive to work. Then there are other standards: appearance, personality, past record, ability to study and learn quickly, physical ability to withstand a tough work schedule. Men who habitually "do not feel well" are ruled out, as are men who have waged a losing fight with alcohol in the past. Moreover, men who have held several jobs for less than a year are almost automatically ineligible, unless these were vacation jobs during school years.

Other companies have many other requirements which rule out many men who were once considered good sales material. Standards for salesmen are getting higher and tougher every year. Men who could have found employment with top-ranking companies even a few years ago are sometimes ruled out today for seemingly minor reasons.

—Dartnell Sales Service

Also Recommended • • •

WHAT SALES LEADERS EXPECT OF CREDITMAN. *Credit and Financial Management* (33 South Clark Street, Chicago 3, Ill.), December, 1952. Several sales executives were asked to describe the kind of sales assistance each expected from the credit manager of his company. Their replies, which point up sharply the interdependence of the sales and credit functions, showed that the application of sound credit practice to make possible the acceptance of almost every order is among the credit aids most desired by the sales manager.

SALESPEOPLE CAN'T BE TRAINED—AND SHOULDN'T BE. By E. B. Weiss. *Fortune* (9 Rockefeller Plaza, New York 20, N. Y.), November, 1952. Replying to a recent *Fortune* article that advocated better incentives and better training for retail salespeople, ("The Retail Outlet: Point of No Sale," digested in November issue of THE MANAGEMENT REVIEW), the author argues that the best and most logical answer to the problem of increasing retail sales lies in the direction of self-selection and self-service. As major reasons for this conclusion, he cites the deficiencies of retail clerks as training material and the public's desire for increased speed and convenience in shopping.

WHAT OUR RECORD BIRTH RATE MEANS TO MARKETING. By Ruth R. Reed. *Advertising Agency* (48 West 38 Street, New York 18, N. Y.), September, 1952. Our present rising birth rate, though only a temporary departure from the long-term declining trend, is highly significant from a marketing standpoint, as this analysis clearly demonstrates. Not only is the present child market directly accessible to many advertisers today, but the individuals who compose it will, thanks to medical advances, be buying goods for more years than their parents. The wise manufacturer should be prepared, says the author, for a sharp rise in demand beginning in the 1960's, when the "war baby crop" will begin to marry and establish homes.

GOOD CREDIT TRAINING FOR BETTER SALESMEN. *Credit and Financial Management* (33 South Clark Street, Chicago 3, Ill.), November, 1952. This article quotes the replies of a number of representative company treasurers and credit executives to the question: "What credit training does your company give its salesmen and how would you expand the program?" Methods cited included, in almost every case, furnishing current credit information to the salesman as well as instructing the sales trainee in the firm's credit concepts and practices.

SHOPPING AFTER DARK. By Dero A. Saunders. *Fortune* (9 Rockefeller Plaza, New York 20, N. Y.), November, 1952. A conspicuous feature of the current trend toward multiple night openings, this article points out, is that almost all retailers are either adopting new store-hours policies arbitrarily or reluctantly following the example of others who have done so. The author points out the value of adequate customer research in enabling retailers to realize the greatest benefit from night openings and to avoid undue increases in labor and overhead costs.

Financial Management

FINANCIAL AND STOCKHOLDER RELATIONS: PROBLEMS OF THE AVERAGE CORPORATION

HERMAN S. HETTINGER*

ONLY about one in every 16 American adults—roughly one U. S. family out of 10—has stock holdings. The significance of this fact is far-reaching: Clearly, there is an untapped reservoir of potential investors. This conclusion is reinforced by the marked increase, since the end of World War II, in the number of families with yearly incomes of $5,000 or more and by the fact that only one-fifth of all families in the $5,000-$10,000 bracket own stock today. A broad view suggests that a wider base of stock ownership in America would contribute greatly to a more judicious and balanced public opinion on matters of national economic policy.

Good work is being done today by the New York Stock Exchange, leading investment houses, and a growing but still too small number of corporations, in an effort to increase both the number of share owners in American business and the degree to which they are informed participants in the corporate enterprise. Long-range progress, however, will depend primarily upon the efforts of many individual corporations. This is true for several reasons. The financial community's ability to inform present and potential investors regarding any particular enterprise is dependent upon the quality and comprehensiveness of the data furnished by that corporation. Moreover, people must be interested in *specific* corporations if they are to benefit from or feel any personal identification with the nation's corporate structure.

ADVANTAGES TO THE COMPANY

If such efforts are for the public good, they are also to the advantage of the individual corporation. To help ensure stability of management and a more stable market for their securities, corporations are always desirous of broadening the base of their stock ownership. Moreover, every management wishes to see the securities of its enterprise properly evaluated in comparison with those of other concerns operating in the same industry. Proper evaluation of a company's securities by the financial community is important to the stockholder, too, for it is the best insurance that his holdings will be fairly valued in the market. Such objectives can be fully attained only if the corporation disseminates the proper factual information, on a carefully planned and continuing basis, to its stockholders and to the financial community—the investment bankers, brokerage houses, mutual funds, investment counsel, and others, who play the

* Formerly Associate Professor of Marketing, Wharton School of Finance and Commerce; now Vice President, D. M. S. Hagerty & Associates, Financial and Stockholder Relations Counsel, New York City.

major role in winning new stockholders and holding old ones.

Frequently situations arise that make a financial and stockholder relations program especially necessary. A corporation may have diversified its activities among new fields, so that the character of its business is materially changed, perhaps by shifting the emphasis from a product group with a limited or declining future to one that displays a marked upward trend and prospects for substantial future growth. This is especially important when the new field is more highly regarded than the old—when, for example, emphasis shifts from magnetos to diesel equipment, from auto and truck radiators to room air conditioners, or from shipbuilding to airplane production. The same principle applies when a corporation's securities are newly listed on a major exchange, when, for the first time, any significant portion of its securities have been made available to the public, or when, after a period of adversity, the situation has been reversed by new management with a new and patently successful program.

THE AVERAGE CORPORATION

If, therefore, a financial and stockholder relations program is desirable in the case of corporations, what can management do about it? Up to the present, most discussions have seemingly been geared to the needs of very large corporations. While the principles involved in an effective program apply equally to large, middle-sized and small corporations, the devices and tactics open to the two latter groups differ significantly from those available to an AT&T, a General Motors, a General Electric, or a Standard Oil of New Jersey. The annual meeting of a large corporation, for example, becomes an important device when a thousand or more stockholders may be attracted to attend it; but its effectiveness is in large measure lost in the case of a company having only 2,000 or 3,000 stockholders, who are likely to be widely scattered over the country. Similarly, while the biggest corporations are almost always "news," lesser firms—even those whose sales exceed the $100 million mark—may not always be so considered by the financial press.

The principal difference, from the financial and stockholder relations viewpoint, between the very large "blue chip" corporations and many excellent middle-sized companies, often leaders in their own fields, lies in the materially greater dependence of the latter group upon the informed opinion of the financial community with regard to holding the good will of present stockholders and adding new ones. It is this difference that determines, in large measure, the most effective tactics. What, therefore, are the best means available?

AVAILABLE DEVICES

The devices open to the majority of corporations, in establishing satisfactory relationships with their stockholders and with the financial community as a whole, fall into two categories: the written word and the personal contact. Among the available types of written material are: annual reports; interim financial statements; other periodic bulletins containing pertinent information; special brochures fully outlining the company's products, markets, facilities, industry position, policies, accomplishments, etc.; news releases to the financial press; dividend inserts; letters to new stockholders; special reports of annual meetings. Potentialities

for personal contact exist with regard to both stockholders and appropriate members of the financial community. Since it is impossible to discuss all of these devices comprehensively, an attempt will be made to highlight their relative values and to point out key factors determining their effective use.

THE ANNUAL REPORT

For the majority of corporations, the annual report is the most over-rated of all documents as a financial and stockholder relations device. This quickly becomes evident if one examines the internal organization of the financial community, whose proper evaluation of the company and its prospects is of such great importance. In this respect, the key member of any financial organization is the *securities analyst,* who is usually rather overworked, and can seldom pay regular attention to any corporations except the "blue chips" and other companies in which his firm may have a special interest. Since most corporate fiscal years end December 31st, the greater number of annual reports come out at approximately the same time; so that between the middle of February and the early weeks of April the average analyst is deluged by an indigestible mass of written words and statistical material. Often, when he does manage to look at one of the annual reports that are piled high upon his desk, the analyst will have time only to flip the pages until he reaches the balance sheet and income statement, for quick inspection and future reference.

This problem can be solved, in considerable measure, without neglecting the interests of the stockholder. The point to keep in mind is that, for the most part, both securities analysts and stockholders like simple, direct-to-the-point reports. A one-page summary at the beginning, highlighting key financial information (net sales, profit before taxes, taxes, net income, per share earnings, etc.); a short, sharply focused president's letter; and a summary of comparative financial information for a five- or ten-year period are among devices that can assist both analyst and stockholder to find out quickly and easily what happened. Charts and pictures are helpful, provided they are directed specifically to an important point and are not over-used. The cost of many annual reports could be reduced, and their effectiveness increased, by adherence to this policy.

FINANCIAL PUBLICITY

The news release to the financial press is another standard device of financial and stockholder relations. It, too, must be employed with full realization of both its advantages and its limitations, as well as of the problems involved in its effective use. If national publicity is sought, it is important to remember that comparatively few newspapers have financial sections worthy of the name. The hazards of financial publicity as a key element in a financial and stockholder relations program also must be recognized. If, for example, a company happens to release its six months' report on a day when several giant corporations issue theirs, or on a day when several hundred other corporate reports are released, it may end up in the "agate" with a minimum routine listing. Moreover, with respect to specialized financial papers such as the *Wall Street Journal* and the *Journal of Commerce,* it is wise to address the release to the particular individual who covers the company or the industry. Regardless of its limitations, financial publicity is an essential element of any good

program. Yet, in view of the problems it involves, and of the probability of limited readership for any given item, too much should not be expected of this device alone.

DIRECT MAIL

Direct mail is especially effective with regard to both the financial community and the stockholders. Here, again, careful planning is required. For example, a broadcast mailing to the financial community is both wasteful and comparatively ineffective. Lists of analysts will include as many as 10,000 but the number of analysts concerned with industrial corporations—as contrasted with public utilities, municipal issues, etc.—is only about 3,000. Moreover, it is highly desirable to direct the company's material to the particular analyst who is concerned with the company or with the industry of which it is a part. In large brokerage houses, this analyst is likely to have one specialized function—e.g., rails, utilities, automotive equipment, electrical appliances or food concerns. In smaller houses, one partner may do all the analytical work.

It is always advisable, in the case of any bulletin or statement, to mention the availability of extra copies and to state where these may be obtained. This is particularly true with respect to over-the-counter securities, for dealers in this field often have fewer facilities for the preparation of their own bulletins than do those dealing with listed stocks. Special attention frequently should be paid to "wire houses"—brokerage concerns with widespread branches or affiliates, for which the main office prepares its own special bulletins and analyses. It should also be remembered that, while most security transactions take place in a comparatively few financial centers, the investing public itself is spread over all sections of the country, each of which has its own "investment psychology" and predilections.

THE BASIC REPORT

The so-called "basic report" is an especially effective device in dealing with both analysts and stockholders. This type of brochure presents a more comprehensive picture of the company than can be secured from any single annual report, since its subject matter includes descriptions of the company's products and markets, and the trends in these markets; an account of the principal customers and competitors of the firm, and of its competitive position in the industry or industries to which it belongs; a summary of key financial information for an appropriate number of years; and a discussion of the policies underlying the company's achievements and of the management responsible for guiding its operations. Such a report becomes a basic reference work for the securities analyst, and provides the stockholder with an integrated business profile of his company. New editions can be issued at suitable intervals.

With the "basic report" as the springboard, a series of periodic bulletins can be issued to both stockholders and the financial community that will include not only the normal interim financial reports but also bulletins concerning new acquisitions, new plant facilities, important product developments, refinancing, and similar matters. Experience has shown that company programs are only as effective as the information issued is complete.

PRESENTING THE MATERIAL

It is vitally important that all material be presented in such a way as to permit easy reading and a speedy comprehension

of salient points, if it is to be given wide use among analysts. The same qualities, obviously, will mean greater readership among stockholders. Format and type face, as well as good writing, are key devices in achieving this goal. Many of these publications today are conventional and dull, and are printed in small type; some companies, on the other hand, err on the side of over-elaborateness. Probably too little experimentation has been done with unconventional type faces (such as some that are available on IBM typewriters) and with informal copy with unjustified lines. For the analyst's files, 8½" x 11" is still he best size. Moreover, it has good attention value.

Dividend inserts are useful supplementary devices for reaching stockholders. When the company's products are in the consumer goods category, dividend inserts can be employed for judicious product promotion as well as for broader institutional messages. Letters to new stockholders should not only be personalized, but should also contain a thumb-nail sketch of what the company is and does.

PERSONAL CONTACT

Personal contact work with the financial community, even more than with stockholders, is an essential element of any comprehensive program. Calls on analysts and sales heads enable the company to determine, directly or indirectly, whether its material is reaching the right persons, being read, and being put to effective use. Talks by the company's president before analysts' societies in key financial centers are also helpful. However, it should be remembered that the membership of such societies may include many individuals who are not interested in industrial companies—e.g., specialists in municipals, railroads, or public utilities—and that not even all industrial corporation analysts are interested in the company's own particular product group. It is sometimes advisable, therefore, to arrange special meetings of carefully selected members of the financial community. Plant tours of selected groups can also be helpful, provided there is something interesting to see and management is willing to answer questions frankly and freely.

For most corporations, there is little opportunity for personal contact with stockholders except at the annual meeting, and even that contact is limited to a relatively small number of individuals. Apart from the benefits of showing normal courtesy and frankness to stockholders attending, it would seem that maximum value is derived from the annual meeting by mailing to all stockholders a summary report, which has been edited to eliminate all irrelevant and unimportant matter.

SPECIALIZED COUNSEL

Because of the high degree of skill and the time demands on top personnel concerned with financial and stockholder relations, many corporations are retaining specialized counsel to assist them in this area. Counsel of this type is a comparatively new development, and should not be confused with general public relations; it is distinguished from the latter by its specialized knowledge of financial matters, of the organization, practices, requirements and psychology of the financial community, and of the considerations motivating investment.

The services provided by different financial and stockholder relations counseling organizations, like those of management consultants, vary greatly. Some organizations confine themselves primarily to financial publicity disseminated to the

press and the financial community. Others tend to emphasize personal contact work, frequently confined to a few key centers. A number specialize in the preparation of annual reports. A few provide more comprehensive service: preparation and dissemination of basic reports, interim financial reports and special bulletins; advice and assistance on the annual report; financial publicity; personal contact work by members of their own staff with analysts and other key personnel in the country's leading financial centers; arranging meetings between company executives and appropriate members of the financial community; and general advice on financial and stockholder relations matters. Where specialized counsel is used, therefore, selection should be made in terms of criteria pertinent to the individual corporation's special requirements.

ADVANTAGES AND COSTS

The experience of numerous progressive companies has shown that an important phase of a continuing financial and stockholder relations program is that it keeps the investor and the financial community informed on the activities of the company, and thus makes possible a proper evaluation of its securities in relation to those of other companies in the industry. This is especially true in periods of temporary adversity, for at such times it is imperative that both the stockholders and the financial community be kept fully advised of the disturbing factors affecting the corporation and the means being taken to overcome them. Dissemination of favorable news is equally important, in that it tends to maintain the confidence of the stockholders, as well as of the financial community, in the company's management—a vital asset for any successful enterprise.

Properly conducted stockholder relations, plus the attendant publicity, also serve to broaden the base for the company's securities. Knowledge that a corporation is progressing, that it has the know-how to meet and conquer adverse situations, breeds confidence among the investing public. It builds up an interest in the financial community that frequently results in an increase in the number of the corporation's stockholders.

The generation of investment interest for the stock of a going concern puts the company in an exceptionally strong position when the time arrives for expansion, when new funds are needed for new facilities or additional working capital. Bankers like to deal with a corporation that is widely known as a successful and growing enterprise; they like to do business with a congenial family of understanding executives and satisfied stockholders. A good financial and stockholder relations program is one of the best character references to submit to a banker.

The cost of such a project, including all printing and mailing expense, is surprisingly modest for a comprehensive program suited to the majority of corporations. Although costs will vary with the size of the company and the complexity of its problems, experience has shown that, with the use of counsel which can offer the joint advantages of specialized skills and shared overhead expenses, overall costs may fall below $25,000 per annum (assuming the corporation has no more than about 4,000 stockholders).

The firm which feels it cannot afford a financial and stockholder relations program to improve its standing not only with its own stockholders, but also in the financial community, is usually the one in greatest need of such a program.

Rise Foreseen for Internally-Derived Corporate Funds

A VERY SUBSTANTIAL rise is in prospect for the internally-derived funds of corporations, the Machinery and Allied Products Institute has concluded from a recent study. The prospective rise will largely be due to a sharp increase in corporations' annual depreciation and amortization accruals, which stand today at $10.3 billion—140 per cent higher than in 1946—and by 1955 are expected to be 50 per cent above the present level.

In all but one of the postwar years to date (1948) fixed capital expenditures have been in excess of internal capital funds. During the seven-year 1946-52 period, about $92 billion of corporate capital funds came from external sources as against an approximate $106 billion from internal sources, including $50 billion from depreciation accruals and $56 billion from retained profits. By 1955, the Institute predicts, internally-derived corporate capital funds, depreciation and amortization will amount to $15 billion and retained earnings to $10 billion—a total for the year of $25 billion, which would exceed even the current high rate of capital expenditures ($23.5 billion a year).

Not all of the anticipated increase in internal funds will be available for fixed capital expenditures, however. An acceleration of corporate tax payments under the Mills Bill will absorb roughly a billion dollars a year for the next three years, and available funds will probably be reduced still further by an increase in working capital requirements. Even so, the rise in prospect for internally derived corporate funds promises strong financial support for a continued high level of fixed capital outlays.

Hard Goods Makers Suffer Most from Renegotiation

RENEGOTIATIONS have varying impacts on company profits, according to a recent survey.* In 200 separate World War II renegotiations, hard goods companies making components that ran into high volume were hit most severely. A ball bearing maker, for instance, had his pre-tax profits whittled down from 53 to 17 per cent of sales; a maker of gauges, from 42 to 9.2 per cent; a gear maker, from 66 to 8.8 per cent; a maker of industrial drums, from 49 to 11.6 per cent; a maker of couplings, from 44 to 4.6 per cent; a maker of screw machine products, from 75 to 15 per cent; and a sheet metal fabricator, from 60 to 7 per cent.

Firms making soft goods and end products, on the other hand, did better in their renegotiations. A chemical company had its profits renegotiated from 22.5 to 13.8 per cent of sales; a clothing manufacturer, from 18 to 12.3 per cent; a construction firm, from 25.5 to 9 per cent; a machine tool maker, from 28.8 to 15 per cent; an electronics company, from 9.8 to 7 per cent; a shipbuilder, from 12 to 9.5 per cent; and a cotton mill, from 22 to 10 per cent.

* Reported in *How to Handle Renegotiation*, by William J. Casey and C. Richard Gunzer. Business Reports, Inc., Roslyn, N. Y., 1952.

TO PAY OFF a retroactive pay raise in its new union contract, the Magnesium Co. of America will distribute $100 company bonds pegged to the Bureau of Labor Statistics' price index. The bonds, which will also be sold to employees, will be revalued twice a year, in line with the cost of living. They can rise as high as $150, but cannot dip below the purchase price. Moreover, the bonds will draw 4½ per cent interest on the adjusted values. The company feels the bonds will give employees some of the benefits of common stock without the risks.

—*Time* 10/20/52

PRACTICAL STANDARDS FOR CORPORATE GIVING

WHILE MANY GROUPS that seek donations from corporate funds are worthy in themselves, worthiness alone can seldom justify assistance from business. Corporations should give financial support to a cause or organization only when direct or indirect benefits to stockholders, employees, or customers will follow. The following standards may provide a basis for a correct decision:

1. Will the contribution benefit the company, directly or indirectly?
2. Does the company's present business position justify the contribution?
3. Is a donation likely to lead to similar requests in the future?
4. Is the purpose of the soliciting organization a good one, and does the organization have widespread acceptance and support?
5. Is the soliciting organization efficiently and honestly managed? Who are the people heading it?
6. Does the organization aid all kinds of people, or is it restricted in its operations?
7. Is the request consistent with the company's place in the community?
8. What will be the public reaction if you give, or do not give?
9. Are some of your large customers interested in the solicitation?
10. Will the contribution advance the community and public relations of the company?

If it is decided that a contribution should be made, its amount should depend upon the answers to such questions as:

1. Will the company benefit much or little?
2. What is the total amount being asked for in the campaign, and what seems to be a reasonable share for the company to assume?
3. What amounts are other companies in the community giving? What are other firms most similar to yours giving?
4. What is the size of the community from which the request came?
5. What is the extent of the company's operation in the community? In other words, is the company a large or a small factor in the community?
6. How many employees do you have in the community, and is there any relationship between the number of employees and the amount you should give?

The end of World War II marked the beginning of a period of review and retrenchment in corporate donations; the over-all number of demands on corporations, however, has continued to rise, as more and more organizations turn to this source for aid. Because of this avalanche of charitable appeals, some companies have set down their donation policies in writing.

Written policies save time in making decisions, facilitate the coordination of plant and home-office giving, and simplify administration. A written policy generally proves to be a time-saver because everyone concerned with corporate giving is informed of the company's attitude and practice in this field. Since formulating set policies, several firms report that they have been able to handle a greater number of gifts at less cost. Moreover, a uniform system of compiling information about each soliciting organization makes it possible to build up a useful and time-saving file. When requests arrive which have been previously turned down, it is a relatively simple matter to handle them. The file also makes it possible to weed out organizations whose objectives and operations overlap unnecessarily, and thus to limit the chances that contributions will be made to organizations working at cross-purposes.

Most policy statements contain four principal sections, dealing, in turn, with general principles, types of organizations to be helped, organizations to which no assistance is to be rendered, and administration of the policy. The general statement ordinarily includes an acknowledgment that the funds to be disbursed represent the stockholders' money. If a company is willing to contribute equipment or other nonfinancial assistance, this fact is usually stated at the outset. If the company encourages its executives to participate in local fund-raising drives, a statement to this effect is also made.

—GERARD J. EGER. *The Controller*, November, 1952, p. 534:2.

Treating Stockholders Like Partners

STOCKHOLDERS OF GENERAL MILLS, Minneapolis, are used to being treated like members of the family. While other companies were debating the advisability of mailing occasional friendly letters to stockholders, this firm was already inviting them into the house and urging them to take their shoes off if they felt like it. General Mills has not only written its stockholders, but gone to visit them, and carried its annual reports to them by holding group stockholder meetings in their home towns. It takes the stand that the stockholder is a partner in the business and ought to be told anything he wants to know about it.

The company's stockholder magazine, *Horizons*, was an immediate success when it was launched five years ago. Not content with reader praise, *Horizons*' publishers hired a top survey organization to check reactions, and discovered there's a lot more that interests stockholders than earnings and dividends. Stockholders want broader knowledge, and a closer relationship with the company. They are interested in diversification of operations, effects of taxation on earnings, labor relations developments, and advertising and promotion. The readers of *Horizons*, their letters show, don't want any standoffish treatment. They want to be in the group and know what's going on. The company is more than glad to oblige.

—*The Pica Rule* (Blanchard Press, Inc., New York 1, N. Y.) No. 34.

The Unnecessary Letter

CUSTOMERS who always pay their bills promptly deserve something more than the customary 2 per cent discount, in the opinion of the Thatcher Glass Manufacturing Co. of Elmira, N. Y. A letter that went out recently to Thatcher customers over the credit manager's signature read in part:

"All too frequently a credit man is prone to overlook the customers who consistently handle their accounts in accordance with the terms of sale. I suppose to some extent we may be excused, since we must devote our time to those accounts which are habitually delinquent. . . .

"I'd like to comment personally on the excellent payment record you have established with us, even though you probably regard it as a matter of course. You have made my job easier and more pleasant, and whenever anyone has asked us for information about your business it has been our pleasure to quote that fine record of yours and tell them how highly we regard you."

Often the letter that isn't absolutely *necessary* is the one that wins the most good will.

—*Sales Management* 11/1/52

Also Recommended • • •

A SET OF CHARTS FOR REVIEW OF OPERATIONS. By George R. White. *N.A.C.A. Bulletin* (National Association of Cost Accountants, 505 Park Avenue, New York 22, N. Y.), November, 1952, Section I. Illustrated and explained in this article are 14 charts showing trends in such variables as product shipment, gross profits, production cost, inventory position, and variations from forecast. The author also discusses some principles of chart construction and describes techniques for the effective use of this device in presenting to operating management a clear picture of the current position of the enterprise.

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CORPORATE DEBT, which in 1951 was about 56 per cent of total private debt, has risen over 80 per cent since 1945. Even so, for manufacturing industries the bulk of the new funds (almost 60 per cent) has come from retained earnings and reserves. Most of the remainder has been borrowed—new stock issues provided only about 3 per cent of the total funds needed.

—*Economic Intelligence* (U. S. Chamber of Commerce) 1/53

COVERING BUSINESS INTERRUPTION RISKS: SOME SPECIAL PROBLEMS

EVEN though its forms provide broad coverage and losses are fairly easy to determine, business interruption insurance is not a policy that can be bought, put away, and forgotten. Instead, it must be closely watched, because it is tied to the constantly changing earnings of your business.

More than that, these forms of insurance contain a coinsurance clause, called a "contribution clause" in the form, which requires the business man to attempt to foresee the probable future of his business for many months to come. These coinsurance clauses require that insurance be carried on a specified percentage of business interruption values for the twelve months *immediately following* a loss.

It is the feature of business interruption policies which causes the greatest difficulty at time of loss. Too often, companies buying this type of insurance have misunderstood the coinsurance provisions and shaved the coverage down to the bare minimum needed to meet the requirements of the business on the basis of *prior* year experience; consequently at the time of loss they have had only partial coverage. This failure to review business interruption values regularly has resulted in businesses being coinsurers in about two out of three losses in the past few years, according to national figures.

Probably the best and simplest method of solving the problems presented by the coinsurance clause is a systematic program for reviewing business interruption values annually, if not oftener. Larger businesses could very well review these values and adjust their insurance every three or six months.

The coinsurance percentages used in business interruption forms vary from 50 per cent to 100 per cent, and each form clearly specifies the factors to be used in determining the business interruption values. After making sure that it has bought enough insurance to cover the greatest possible loss of earnings under adverse circumstances, the company should secure the highest applicable coinsurance percentage in order to get the lowest possible rate.

There are a number of other aspects of business interruption insurance which the careful insurance buyer should consider in fitting this coverage to his own particular business requirements. The forms provide standard limits of 30 days beyond the "period of interruption" (the time from the damage to the property until the business is ready to start operation again) applying to certain factors which can affect resumption of business. Thus, in a manufacturing risk, 30 days' additional time is provided for replacement of raw stock and for replacement of stock in process. If, as is often the case, this 30-day limitation should be unrealistic, the period can be extended to provide added coverage at an additional premium.

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PRACTICAL STANDARDS FOR CORPORATE GIVING

WHILE MANY GROUPS that seek donations from corporate funds are worthy in themselves, worthiness alone can seldom justify assistance from business. Corporations should give financial support to a cause or organization only when direct or indirect benefits to stockholders, employees, or customers will follow. The following standards may provide a basis for a correct decision:

1. Will the contribution benefit the company, directly or indirectly?
2. Does the company's present business position justify the contribution?
3. Is a donation likely to lead to similar requests in the future?
4. Is the purpose of the soliciting organization a good one, and does the organization have widespread acceptance and support?
5. Is the soliciting organization efficiently and honestly managed? Who are the people heading it?
6. Does the organization aid all kinds of people, or is it restricted in its operations?
7. Is the request consistent with the company's place in the community?
8. What will be the public reaction if you give, or do not give?
9. Are some of your large customers interested in the solicitation?
10. Will the contribution advance the community and public relations of the company?

If it is decided that a contribution should be made, its amount should depend upon the answers to such questions as:

1. Will the company benefit much or little?
2. What is the total amount being asked for in the campaign, and what seems to be a reasonable share for the company to assume?
3. What amounts are other companies in the community giving? What are other firms most similar to yours giving?
4. What is the size of the community from which the request came?
5. What is the extent of the company's operation in the community? In other words, is the company a large or a small factor in the community?
6. How many employees do you have in the community, and is there any relationship between the number of employees and the amount you should give?

The end of World War II marked the beginning of a period of review and retrenchment in corporate donations; the over-all number of demands on corporations, however, has continued to rise, as more and more organizations turn to this source for aid. Because of this avalanche of charitable appeals, some companies have set down their donation policies in writing.

Written policies save time in making decisions, facilitate the coordination of plant and home-office giving, and simplify administration. A written policy generally proves to be a time-saver because everyone concerned with corporate giving is informed of the company's attitude and practice in this field. Since formulating set policies, several firms report that they have been able to handle a greater number of gifts at less cost. Moreover, a uniform system of compiling information about each soliciting organization makes it possible to build up a useful and time-saving file. When requests arrive which have been previously turned down, it is a relatively simple matter to handle them. The file also makes it possible to weed out organizations whose objectives and operations overlap unnecessarily, and thus to limit the chances that contributions will be made to organizations working at cross-purposes.

Most policy statements contain four principal sections, dealing, in turn, with general principles, types of organizations to be helped, organizations to which no assistance is to be rendered, and administration of the policy. The general statement ordinarily includes an acknowledgment that the funds to be disbursed represent the stockholders' money. If a company is willing to contribute equipment or other nonfinancial assistance, this fact is usually stated at the outset. If the company encourages its executives to participate in local fund-raising drives, a statement to this effect is also made.

—GERARD J. EGER. *The Controller*, November, 1952, p. 534:2.

Treating Stockholders Like Partners

STOCKHOLDERS OF GENERAL MILLS, Minneapolis, are used to being treated like members of the family. While other companies were debating the advisability of mailing occasional friendly letters to stockholders, this firm was already inviting them into the house and urging them to take their shoes off if they felt like it. General Mills has not only written its stockholders, but gone to visit them, and carried its annual reports to them by holding group stockholder meetings in their home towns. It takes the stand that the stockholder is a partner in the business and ought to be told anything he wants to know about it.

The company's stockholder magazine, *Horizons*, was an immediate success when it was launched five years ago. Not content with reader praise, *Horizons*' publishers hired a top survey organization to check reactions, and discovered there's a lot more that interests stockholders than earnings and dividends. Stockholders want broader knowledge, and a closer relationship with the company. They are interested in diversification of operations, effects of taxation on earnings, labor relations developments, and advertising and promotion. The readers of *Horizons*, their letters show, don't want any standoffish treatment. They want to be in the group and know what's going on. The company is more than glad to oblige.

—*The Pica Rule* (Blanchard Press, Inc., New York 1, N. Y.) No. 34.

The Unnecessary Letter

CUSTOMERS who always pay their bills promptly deserve something more than the customary 2 per cent discount, in the opinion of the Thatcher Glass Manufacturing Co. of Elmira, N. Y. A letter that went out recently to Thatcher customers over the credit manager's signature read in part:

"All too frequently a credit man is prone to overlook the customers who consistently handle their accounts in accordance with the terms of sale. I suppose to some extent we may be excused, since we must devote our time to those accounts which are habitually delinquent. . . .

"I'd like to comment personally on the excellent payment record you have established with us, even though you probably regard it as a matter of course. You have made my job easier and more pleasant, and whenever anyone has asked us for information about your business it has been our pleasure to quote that fine record of yours and tell them how highly we regard you."

Often the letter that isn't absolutely *necessary* is the one that wins the most good will.

—*Sales Management* 11/1/52

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buildings and equipment of the business itself. However, businesses that can suffer serious loss from power interruption as a result of damage to public utility equipment can also be covered, at an additional premium, for this type of loss.

Certain businesses are exposed to the possibility of a complete or serious interruption of their business by the destruction of plants of their suppliers or of their buyers. Losses of these kinds are covered under a special form of business interruption insurance known as contingent business interruption.

Business interruption insurance covers only loss resulting from the interruption of business. In the case of a manufacturing plant, the policy covers loss resulting from the interruption of manufacturing processes; a loss of profits on finished goods held in warehouses is not covered because it is not the result of an interruption of manufacturing. Ordinary fire insurance on finished goods which are stored in warehouses to await somewhat seasonal delivery periods covers only the replacement cost of the goods themselves; the firm, however, plans to sell these goods at a profit and its operating results depend upon getting that profit.

Manufacturing concerns can solve this problem with a form of insurance known as profits and commissions insurance, or by having the "market value and selling price" clause attached to the contents fire policies. This insurance provides coverage not only for the replacement value of the damaged property but also for the profits on these finished goods when they are sold. For businesses that must continue service to customers regardless of expense, there is a special form of coverage available known as extra expense insurance—another line usually written to include fire and extended coverage hazards. This policy pays all the necessary expenses (above normal operating costs) of maintaining as nearly as possible the same quality of business service as existed immediately before the loss.

The upward spiral of rentals during the last 10 years has created another real exposure to loss which is very seldom realized and insured. Advantageous leases of property well below the current market rental are definite business assets, which can be lost if the lease should be canceled. Most leases do contain a "fire clause" providing for cancellation in case of a certain percentage of damage to the property by fire or other hazards. In many cases, cancellation of a lease can cost the business a large amount each year for the life of the lease and produce a long-range change in the operating results of the business. A form of insurance known as leasehold interest insurance provides for a lump sum payment to compensate the business for loss of advantageous leases through the operation of the fire clause.

—John D. Phelan. *Rough Notes,* November, 1952, p. 26:5.

IN 1951, private insurance met about 13 per cent of the personal costs of sickness, leaving 87 per cent to be paid by the individual, according to a report released by Arthur J. Altmeyer, federal Social Security Commissioner. The combined total for medical care and loss of income due to sickness was $14.2 billion.

—*The Weekly Underwriter* 1/10/53

WHY FIRE LOSSES KEEP MOUNTING

IN SPITE OF THE PROGRESS that has been made in controlling fires, losses from this cause, as measured in dollars, get higher every year. In 1951, the National Board of Fire Underwriters estimates, they reached an all-time high of $731,405,000, more than double the greatest annual total before World War II. This is the equivalent of two million-dollar fires a day, every day of the year.

Many factors are involved in this increase. Building construction costs have gone up more than 100 per cent since 1939. Building maintenance and repairs are up; so are commodities, metals, furniture and equipment of all kinds. Significantly, the rise in fire losses has roughly paralleled the rising trend in building and contents values. Another factor of overwhelming importance is our tremendous growth. Since the end of World War II, Americans have built nearly $10 billion worth of new homes, and factories and commercial buildings have been going up at a rate of $8 billion a year. In the past year alone, combined wholesale, retail, and manufacturing inventories increased by an estimated $9.35 billions. Moreover, our population has risen from 131 million in 1940 to nearly 154 million in 1951; and where there are more people, there are more fires. New York City, with seven million people, has 44,000 fires a year; Magnolia, Arkansas, with 6,000 people, has 35 fires.

There is one other factor that cannot under any circumstances be ignored, although its effect can only be surmised. This is the increase in new hazards. While we have eliminated scores of hazards during the past 50 years—the tallow candle, the kerosene lamp, the frame business building, the wood shingle roof—two new ones have sprung up in their place.

First, we are making, transporting, using, and storing larger quantities of dangerously flammable and explosive materials than ever before in history. These materials are essential to the convenience of modern living, the growth of the nation, and its defense, but while we are learning to control and handle them we suffer from many severe fires because of them.

Secondly, our industrial plants and research laboratories are constantly developing new manufacturing processes that frequently involve new fire hazards. Sometimes the hazard doesn't turn up until the process is in full production. Our builders devise structures of unusual size or area, some with few if any windows, and in these structures fires are exceedingly hard to detect and to fight. Too, many industrial and commercial centers of great size are being built in rural or suburban areas where fire protection and water supplies were designed to cope only with residential fires. As a result, a million dollar fire in a small community of five or six thousand persons is no longer unusual.

Under all these circumstances, the fact that the fire loss increase was held to a mere 6 per cent last year shows the real effect of fire prevention and fire protection measures; but it also points up the need for continued research, continued testing of new products and processes, and continued effort against fire on every front.

If losses should get completely out of control, higher fire insurance premiums would be the inevitable result. In the

last analysis, it is the buyer of insurance who, by his own care and caution in helping prevent fires, ultimately determines its cost. His losses in various classes of occupancies actually set the premium.

Yet fire prevention is more than a means of reducing the losses of one's own company. It is a means of safeguarding the American community and permitting our people to realize the progress that is the mainstay of our civilization.

—LEWIS H. VINCENT. *The Casualty and Surety Journal*, Vol. XIII, No. 30.

Life Insurance Costs—Today and in 1915

WHILE THERE HAVE been changes over the years in factors affecting cost of life insurance to policyholders, these changes have largely tended to offset one another.

The three major cost elements in life insurance are: (1) death rates among policyholders; (2) interest rates earned on invested life insurance funds; and (3) expenses of running the business and servicing policies. The mortality rate has been trending downward for many years. It was 9.8 per 1,000 in 1915, as against 6.4 in 1951—a drop of 35 per cent in 36 years. If this had been the only factor involved, it would have tended to lower costs.

In these same years, however, the earnings rate on invested funds declined 33 per cent—from 4.77 per cent in 1915 to 3.18 per cent in 1951. This drop, tending to increase insurance costs, has largely offset mortality gains. The expense ratio, while fluctuating, is today very nearly the same as it was 36 years ago. In 1915 the ratio was 16.7 per cent; in 1950, 16.8 per cent. In general, lower earning rates and increased expenses have more than offset the decline in mortality rate.

—*Life Insurance Fact Book, 1952* (Institute of Life Insurance, New York, N. Y.)

18,000 Retirement Funds

ANNUAL PAYMENTS of American industry into retirement funds now total $2.2 billion a year, Rawson Lloyd, vice president of the Wellington Fund, estimates in his recently completed study of pensions and profit sharing plans. The study places the number of such plans now in operation at 18,000 and adds that new plans are being filed at the rate of more than 300 a month.

Employers, Mr. Lloyd found, now set aside about $1.2 billion in trusteed retirement funds and an additional $1 billion in insured plans every year. Trusteed funds, it is estimated, now total between $8 and $10 billion and are growing rapidly from substantial annual contributions and establishment of new plans.

Mr. Lloyd attributes the growth of retirement funds partly to the fact that many companies are able to set up such plans in such a way that a major part of the cost is offset through tax savings.

—*Insurance Advocate* 12/27/52

MORE THAN 90 million people in the United States now have some health insurance. This is nearly three times the number covered at the end of World War II and six times the number covered at the outset of that war.

—RALPH T. HELLER in *The National Underwriter* 1/8/53

Also Recommended • • •

WHAT DO YOU DO WITH YOUR GROUP INSURANCE NOW THAT YOU HAVE BOUGHT IT? By Alan R. Willson. *The Weekly Underwriter* (116 John Street, New York 38, N. Y.), January 3, 1953. The average employer who buys group insurance for his employees is likely, says the author, to dissipate its good-will value by failing to publicize the plan for more than a few weeks after its adoption. This article describes the methods several companies are using to keep the idea of the group insurance plan constantly before their employees.

BOOBY TRAPS IN CREDIT. By Russell B. Gallagher. *Credit Executive* (71 West 23 Street, New York 10, N. Y.), November, 1952. The failure of any business is likely to be a blow to its creditors. Discussing the extent of the credit manager's legitimate interest in the customer's insurance program, the author points out that the former can and should give helpful general advice without undertaking a detailed study or making specific recommendations for a new program.

TRICKS OF THE OFFICE BURGLAR'S TRADE. By Keith Monroe. *Nation's Business* (U. S. Chamber Building, Washington 6, D. C.), January, 1953. Thieves who break into offices are frequently much more clever than their victims have anticipated, as the cases narrated in this article show. Among the precautions recommended are tighter restrictions on people entering and leaving office buildings after hours and more extensive insurance coverage than is offered by a safe-burglary policy alone.

THE FUTURE OF INSURANCE AWARDS AND COMPENSATION. *The Insurance Broker-Age* (90 John Street, New York 7, N. Y.), December, 1952. The defendant's liability in tort cases, says the author, is gradually being extended to instances of purely technical deviation from due care. At the same time, jury awards are mounting at a rate which threatens to bring about the eventual disintegration of the present system of civil law and the substitution of an administrative system based on compensation without regard to fault.

IS INVENTORY INSURED AGAINST LOSS? By Tower Belt. *American Business* (4660 Ravenswood Avenue, Chicago 40, Ill.), November, 1952. An explanation, illustrated by charts, of alternative types of insurance available to cover possible loss or damage to goods in inventory, especially in businesses where marked inventory fluctuations are to be expected. Particular attention is given to the application of co-insurance clauses in such cases.

WHAT LIMITS? By Kenneth M. Hough and Willard A. Hayden. *Best's Insurance News* (75 Fulton Street, New York 38, N. Y.), November, 1952. A general discussion of the effects upon liability coverage of inflation and the trend toward increasingly high jury awards, particularly in cases involving large corporations. After analyzing several proposed solutions to the problem of adequate coverage, the authors suggest that a practical first step might be to double or triple the present basic liability limit.

TRUCK CARGO THEFTS CAN BE CUT. By H. Conrad Lueck. *Insurance Advocate* (123 William Street, New York 38, N. Y.), January 3, 1953. Losses from truck cargo thefts amounted to roughly $75 million last year—a new all-time high—and will probably break that record in 1953, the author states. Types of cargo most frequently hijacked are discussed, as are the main causes of loss and the benefits afforded by a cargo protection program that takes full advantage of modern insurance forms.

AMERICAN insurance companies in 1951 paid net premiums of $147,200,000 to foreign reinsurers, against which the amount recovered for losses was $106,800,000, according to figures released by the Department of Commerce's Office of Business Economics. Reinsurance premiums ceded to foreign countries in 1951 were up about 13 per cent over 1950, roughly in line with the growth of all premiums written in the United States. Losses recovered rose much more sharply and were 27 per cent higher than in 1950.

—*The Eastern Underwriter* 1/9/53

Survey of Books for Executives

GROUP LEADERSHIP: *A Field Experiment.* By Gunnar Westerlund. Nordisk Rotogravyr, Luntmakaregatan 25, Stockholm, Sweden. 1952. 257 pages. Price: 16 Swedish Crowns.

Reviewed by Robert G. Simpson*

Full employment in the postwar period brought in its train many industrial-social problems. In some European countries, one of the most significant of these has been the weakness of leadership offered by the business community to its employees. Supervisors—confronted with the realization that autocratic sanctions of authority were no longer acceptable, and that "carrot-or-stick" principles of discipline could no longer be applied—realized that they had to "lead" instead of to "boss," often for the first time in their lives! In the United States there is perhaps not full understanding of the extent to which this occurred in Europe, where the sanctions of authority traditionally derive more from paternalism and less from personal leadership than is the case in the New World.

But the "carrot-or-stick" attitudes had sheltered more than bad leadership: they had permitted, even encouraged, bad supervisory organization. And when the body-industrial started to creak ominously at its employee-joints, managers realized that in many cases the reorganization of supervisory arrangements was a task more urgent even than that of retraining or replacing apparently incompetent supervisors.

Sweden's neutrality in the war proved to be no defense against these problems of the peace. The State-owned Telephone Exchange in Stockholm, while planning to expand and improve its service, found itself troubled by increased absentee and labor turnover rates and by serious and increasing difficulty in obtaining an adequate flow of recruits. The chief executive of the Exchange believed that these problems were at least partly the result of unsatisfactory first-line supervision, and decided that the situation should be thoroughly examined. An investigation taking the form of a comparative analysis of the effectiveness of two methods of supervision, one "line" and the other "functional," was carried out in 1951 under the direction of Mr. Gunnar Westerlund.

Mr. Westerlund describes this investigation in detail in his book. He tells of the historic background of the project, notes the characteristics of jobs and personnel, the frames of reference used, the formulation of the working hypotheses, the design, conduct and results of the experiment, and the conclusions reached. Previous research is reviewed in a supporting section, and appendices give details of some of the formal instructions used, together with a comprehensive bibliography. The book is a well-designed, unostentatious presentation of the results of the research project, excellently translated into English. It loses only through not commencing with a clear statement of the objective of the research, this being briefly suggested, rather than explained, in the preface. No doubt the objective was apparent to those closely concerned, but to the general reader the purpose underlying the work is not really clear until reading is well advanced.

The research work itself was painstakingly conducted. Supervisors, operators, and trade unions were brought into agreement with the objectives of the investigation and with the methods to be adopted, and participated in the experiments. Considerable efforts were made to ensure the statistical validity of the results obtained.

Readers may ask whether this was a "clinical experiment," with the Telephone Exchange as the guinea pig. If so, it seems hardly to have been a happy choice of subject, the author himself admitting (p. 233) that ". . . the number of factors that can be interpreted as

* Urwick, Orr & Partners, Ltd., London, England.

influencing the changes [examined during the research] is so great, that the relationship between the changes and a single factor like the new form of supervision virtually cannot be ascertained." He might well have added ". . . in an experiment of less than one year's duration." These most significant considerations should have been recognized at the outset! On the other hand, the experiment may have been genuinely intended to assist management to decide on the best form of supervision. If so, why—after extremely complex practical situational arrangements had been made—was only *one* set of alternatives examined? The answer is of course that Mr. Westerlund set himself a virtually impossible task. The situation was so complicated with unmeasurable, unaccountable, even imponderable influences that nothing short of another Hawthorne Investigation would have sufficed to provide the answers sought. And therein lies the key to the ultimate significance of this (and in fairness let it also be said of much other) personnel research.

This is a weakness of underlying conception. It must not be taken as criticism of the research work itself, which was sound and thorough in both planning and execution, well reported, with reasonably drawn conclusions. The experiments are continuing.

This is not a book for the general reader, nor for every personnel executive. But it is commended, as a model of its kind, to the attention of all who are seriously interested in or responsible for the conduct, interpretation, or evaluation of research work in the personnel and related fields.

A CREED FOR FREE ENTERPRISE. By Clarence B. Randall. Little, Brown and Company, Boston, Mass. 1952. 177 pages. $2.75.

*Reviewed by Louis Ruthenburg**

Among current items of good news is more comprehensive expression by progressive business leaders. Intelligent business men are becoming effectively articulate.

The Committee for Economic Development, for example, organized and led during World War II by Paul Hoffman, has increasingly influenced business men, legislators and public opinion. This group has been consistently objective. Its statements are based on free research by competent scholars.

Since the turn of the century there have been many indications that business management must assume a new role in national affairs. The new role is much more demanding than the traditional one. In an earlier era, as in more recent years, American industry performed a great social service by making major contributions to a vastly improved American level of living. However, in those days beyond recall, management's contribution to the common good was measured almost solely by management's ability to invent, produce and sell the things that people wanted.

For half a century the philosophy of the founding fathers, under which our country had grown great, has been ignored, ridiculed, attacked. Management's preoccupation with its traditional arts and management's tardy recognition of broader social obligations have permitted forces inimical to the American philosophy to develop great magnitude and momentum.

Business management has been slow to assume the burdens and risks of social and political leadership. Too few men of management realized that, unless they accepted the challenge, competitive capitalism would be replaced by socialism and their places would be usurped by political bureaucrats. Too many of the articulate minority have angrily "kicked against the pricks," thereby confirming the popular indictment of stubborn, insensitive conservatism.

All of which is an approach to a brief discussion of Clarence B. Randall's *A Creed for Free Enterprise.*

Few readers will agree with all of the author's views, but fewer still will fail to find the book stimulating and thought-provoking.

President of one of the most efficiently managed major steel companies, Mr. Randall

* Chairman of the Board, Servel, Inc.

has long been recognized as a man whose views are worthy of public attention. His expressions are courageous, unequivocal, and very readable. Without following fads or departing from sound doctrine, he accepts and advocates progressive management policy and practices. He does not sidestep controversial subjects concerning which debate should be encouraged, nor does he fail to criticize the Bourbons of American management.

Realizing that freedom and responsibility are but the two faces of the same precious coin, he speaks much more emphatically of management's responsibility than of management's "prerogatives." His aphorism, "Free enterprise is not a hunting license," might well be pasted in all the high hats of American management.

This book is so coherent and comprehensive that one is reluctant to comment on its parts. However, mention should be made of the chapter devoted to "The Businessman and Universities," which expresses a forward-looking philosophy of many intensely interesting facets. The same comment applies with equal pertinence to Mr. Randall's discussion of "The Businessman and the Government."

On learning the author's views about young men in business, the reader will discover his unusually deep and sympathetic understanding of human beings, and be impressed by his very practical application of that understanding.

Mr. Randall earns the thanks of his objective readers by underscoring some down-to-earth, if unpleasant, facts about the absence of democratic process in American labor unions and the economic and social evils of industry-wide bargaining and economic dictatorship by our union bosses. He has called this chapter "Unions Never Lose"; his friends in industrial management will characterize it as: "What Every Industrial Manager Knows about Labor Unions." Here are facts that should be pondered by those whose mentalities seek the ivory tower. In a later section, Mr. Randall describes developments in European labor relations concerning which American management needs to be warned and informed. Other chapters are just as cogent and timely.

A Creed for Free Enterprise should not be sampled; it should be completely assimilated. It is good nourishment for management and investors, for hourly rated and white-collar workers, for students and their teachers, for politicians, for "die-hards" and for "do-gooders" alike.

As he finishes this book, the reader, like the reviewer, is certain to ask, "How can the broadest possible readership be attained?"

CONCILIATION IN ACTION: Principles and Techniques. By Edward Peters. National Foremen's Institute, Inc. New London, Conn., 1952. 266 pages. $4.50.

Reviewed by Arthur Stark*

With the publication of this volume we see the coming-of-age of a new profession: conciliation, or mediation, of labor-management disputes. True, this profession is dependent for its existence on collective bargaining relationships between unions and employers. But unions are here to stay, bargaining is here to stay, and, we dare say, the need for finding peaceful settlements to intricate industrial disputes is also here to stay.

The author is a Conciliator attached to the California State Conciliation Service. He is one of a small group of men and women, probably numbering no more than 500 in the entire country, who devote their lives to helping make the collective bargaining process work. About 20 states, in addition to the Federal Government, now maintain active mediation services, and additional ones are being started every year. Thousands of threatened work stoppages are avoided annually by the work of people like Mr. Peters.

What exactly does mediation do? How does it enter into a labor-management dispute? What are its techniques? Mr. Peters answers these questions in detail, with excellent illus-

* Executive Secretary, New York State Board of Mediation.

trations taken from his broad experience. This book could not have been written by an academician—it is much too down to earth, and it clearly reflects the patience, understanding and sophistication that a case-hardened mediator brings to his work.

The basic concept of mediation is that it is "part of the collective bargaining process and can have no existence apart from it." From this premise Mr. Peters goes on to describe the settling of labor-management disputes, the typical deadlock situation in negotiations, and the superficial and underlying elements in strike situations. It is very effectively emphasized that (as Little Buttercup once said) "things are seldom what they seem," and that consequently the mediator must probe far below the public positions of the parties to determine the real motivations for their behavior.

There is a particularly pertinent discussion of the role of "face-saving," often derided by the layman as unworthy of adult behavior. Prestige, the author points out, is of vital concern to both parties and is often "the expression of the power relationship which is implied in the issues precipitating the showdown." "Industrial strife," he adds, "is always featured by a conflict . . . for the loyalty of the workers."

For those who regard collective bargaining merely as "horse-trading" on another level, there is an excellent chapter on the limitations of this process in contract negotiations. There is also an interesting discussion of the role of public opinion, although perhaps undue emphasis has been given to industry-wide negotiations. This reviewer has seen public opinion play an even more direct role in small communities, where large strikes are bound to have an immediate and serious effect.

In his description of the conciliator's contribution, the author succeeds in debunking the story-telling, good-natured-Joe stereotype of the mediator. He points out, too, why mediators are needed to surmount the obstacles to a peaceful or speedy settlement, and describes the personal qualities and the type of experience that a successful and effective mediator must possess.

Space does not permit a more detailed analysis of this book. It certainly is not, nor does it pretend to be, an exhaustive treatise; one finds in it, for example, no discussion of tri-partite mediation, of fact-finding as an adjunct of mediation, or of certain other techniques. As a fundamental statement of the role of mediation and the mediator, however, it is an excellent work. And since mediation is an adjunct of negotiation, this book can be read with profit by management negotiators—particularly those who have not had long experience in the intricacies of collective bargaining.

Briefer Book Notes

[Please order books directly from publishers]

HOW TO HANDLE RENEGOTIATION. By William J. Casey and C. Richard Gunzer. Business Reports, Inc., 225 West 34 Street, New York 1, New York, 1952. 204 pages. $24. This comprehensive manual offers practical guidance on preparing for and handling the renegotiation of defense contracts and subcontracts, based on analysis of the renegotiation results and arguments in over 200 cases where government contractors have filed in the Tax Courts and on close study of industry's problems and experiences in renegotiation. Explains in clear language how renegotiation works and the procedures which the renegotiating company must follow, the basic steps in preparing for negotiation, assembling necessary evidence, preparing the contractor's reports and worksheets, and presenting the case. To enable companies to make

comparisons justifying their pre-tax profits in renegotiation, the authors present a detailed breakdown of Securities and Exchange Commission figures on company profits and overhead expenses in 112 industry groups for the years 1944-50. Since the results of renegotiation are kept confidential by the renegotiation authorities, the authors' analysis of company appeals that have gone to the Tax Court is a valuable addition in that it makes available data that would be difficult and time-consuming for the individual company to assemble and interpret.

FORMS CONTROL. By N. O. Couvillon. Bureau of Business Practice, New London, Conn., 1951. 19 pages. 50 cents. Sets forth a basic five-point program for eliminating waste motions, duplication of work and red tape in the use of forms. Also covers such related factors as reproduction methods, length of retention in files, physical and functional standardization and, finally, the organizational relationship of the forms control staff to other departments. A helpful aid to the office manager or others responsible for the control of paperwork costs.

LLOYD'S. By C. E. Golding and Douglas King-Page. McGraw-Hill Book Company, Inc., New York, 1952. 220 pages. $4.50. A comprehensive explanation of the unique setup of Lloyd's of London and how it operates. Beginning with a brief survey of the institution's colorful history, the authors then concentrate on a picture of the practical, working side of the organization today. The kinds of business conducted, the claims procedure, the many services offered to shipping and other major industries the world over, and the role of Lloyd's during World War II are described simply and clearly.

A "FIRST BOOK" ON FIRE SAFETY IN THE ATOMIC AGE. By Horatio Bond. National Fire Protection Association, Boston 10, Mass. 1952. 84 pages. $3.00. Outlines building safety measures which would reduce fire damage and increase survival rates in case of A-bomb attacks on cities. Originally presented as a paper at the Massachusetts Institute of Technology, the material in the book provides preliminary references for consideration of engineers, architects, and industrial managers.

THE COOPERATIVE MOVEMENT AND SOME OF ITS PROBLEMS. By Paul Hubert Casselman. Philosophical Library, Inc., 15 East 40 Street, New York 16, N. Y., 1952. 178 pages. $3.00. Among the relationships discussed by Professor Casselman are those between cooperatives and labor, cooperatism and socialism, and consumers' and producers' cooperatives. The problems of cooperative education, organization, and taxation also are fully treated.

FRANK L. SWEETSER, 1873-1952

The Association notes with deep regret the passing of Frank L. Sweetser, pioneer management consultant, who was president of the AMA from 1926 to 1927. Mr. Sweetser died December 27 in New York City after a brief illness.

At the time of his death, Mr. Sweetser was a senior partner in the consulting firm of Stevenson, Jordan & Harrison and a partner in National Photo Laboratories. He formerly served as general manager of Dutchess Manufacturing Company and as president of the National Association of Cost Accountants.